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THE ACCOUNTANT

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Barber's Bounty

THERE is a growing body of opinion which considers that the annual Budget is neither a rational exercise from the point of economic policy, nor logical in terms of tax administration. Economic stability cannot be achieved merely by annual adjustments, nor has it – in the light of past experience – proved sensible to compress a series of complex tax changes into a few months' post-Budget discussion.

In recognizing the validity of these observations there is a very real danger that the significance of the Budget, in terms of its effects on public opinion, political strategy and business confidence, may be underestimated. It is against such criticism that Mr Anthony Barber's maiden Budget should be assessed.

It must be conceded that Mr Barber has surprised his political friends and his critics alike. His proposals for immediate tax changes are in the main rational, while the economic effects of his Budget – not least in terms of its impact upon business confidence – are greater than was generally expected Furthermore, it is to his credit that he has both kept the pre-election pledges made by his party, and at the same time given industrial and financial sentiment a significant boost.

To make such an assessment is not to assert that the economic situation will change overnight. The tax concessions are potentially reflationary; certain tax proposals will undoubtedly provide incentives to effort, investment and savings which have been markedly absent in post-war years, and on balance should help to lift the rate of economic growth above the level to which it might well have drifted in the next few months in the absence of Mr Barber's Budget. In particular, accountants will welcome with interest the Green Paper on corporation tax.

The tax changes may best be classified according to whether they are actual or future. The increase of £40 in the child allowances will, like the promised cut in the standard rate of income tax last November, barely help the average family to keep pace with the inflation. It is mere justice, just as is the increase in the rates of pension for single and married pensioners, since child allowances were last raised in 1963.

The pension increase is a major element in the Chancellor's reflationary package which will cost some £560 million, thus raising the total cost of the State retirement pensions to nearly £2,300 million this year. From the point of view of simple justice and, not least, in achieving the full reflationary effect of the increased spending power in the economy, it is a pity that

pensioners must wait until the end of September for their increase. At some future date it is to be hoped, now that the principle of adjusting State pensions for changes in the purchasing power of money seems to have been accepted, that a more flexible and quicker method of implementation will be devised.

Likewise the higher age exemption limits, as well as the increase in the age relief in respect of investment income, must be seen in the light of adjustment to recent increases in the cost of living. The same is true, albeit on a rather different level, of the revised limit of £20,000 for the top rate of surtax. It is particularly gratifying that the Chancellor and his colleagues (it can hardly have been the Chancellor's decision alone), have promised that the top rate of income tax will in future be 75 per cent. In due course it is to be hoped that this may be further reduced to levels nearer those currently under discussion in the USA and Canada. In the same group of taxpayers, the proposal to allow husbands and wives to be separately assessed, at the cost of the difference between the married and single persons allowance, will eliminate a ridiculous anomaly at negligible cost to the Exchequer. The reversal of the previous Government's uncharitable treatment of children's investment income must also be welcomed.

The cut in corporation tax by a further 2½ per cent will provide a contribution to the liquid position of many companies. It was also the logical alternative to any measure for stimulating investment, since it is difficult to see what further fiscal inducement the Government could offer to industrial investment without virtually giving the money away. In any case, the cut in corporation tax is presumably based upon much the same grounds as the switch from investment grants to allowances, i.e., assistance only to profitable undertakings.

There will be considerable relief among the parties affected by the Chancellor's decision that the contentious provisions in last year's Finance Act relating to occupational pensions will become operative only after 1980. In particular the proposed restriction of the lump-sum payment on death in service to two years' salary has now been raised to four years' salary, exclusive of any return of contributions.

The many members of the accountancy and other professions who are self-employed will welcome the proposal to raise the limits on premiums payable in respect of annuities under section 22 of the Finance Act 1956, to 15 per cent from the current 10 per cent, at the same time increasing the maximum premium payable in any one year to £1,500. Such an adjustment is no more than a recognition of the effects of inflation both upon current salaries and future annuities. Given the prospect of continuing inflation and the reduction in tax rates on the present surtax payer, it remains to be seen just how popular this type of provision for retirement will remain. Perhaps with this thought in mind the Chancellor has proposed that, as from 1971–72, part of such annuities may be taken as a lump sum. The actual amount taken in this form will be restricted to the amounts allowed under current occupational schemes.

If there is one single tax change proposed by Mr Barber which will evoke heart-felt relief from most practising accountants, it is the reduction of the capital gains tax to a single uniform rate. The abolition of the short-term tax will also make a substantial difference to the working of the Stock Exchange, where the larger operators will now be encouraged to take their profits and help make a less volatile market.

The Inland Revenue will doubtless share the satisfaction of the profession at the increase in the exemption limit of gains from £50 or less to the simpler criterion of exempting gains arising where the disposal proceeds do not exceed £500. This proposal will take out of liability about one-quarter of all those liable to capital gains tax, most of them persons of modest means.

More contentious from the point of view of fiscal equity is the proposal to abolish the distinction between short-term and long-term gains. Admittedly, as the Chancellor pointed out, the yield from the short-term charge is small – only £1½ million – but unless there are provisions to treat such short-term gains as the proceeds of trading, Mr Barber's proposal certainly opens up again the whole question of the most equitable treatment of capital gains.

Equally contentious is the proposal to abolish the charge to capital gains tax on the taxpayer's death. Admittedly, such an exemption has apparent justice when, as the Chancellor noted, estate duty rates rise to 80 per cent. The short answer is, however, to moderate the rates of estate duty, not to give an important concession where it is not due.

Undoubtedly the major defect among many from which US capital gains tax legislation has suffered has been the exemption of accumulated gains on death. Opposition members in the House will not be slow to stress how this particular concession will tend to perpetuate the concentration of appreciated assets in the hands of the older generation, merely to avoid capital gains tax.

A firm welcome can, however, be given to the modest increase in the starting point for estate duty, i.e., from £10,000 to £12,500, although this again must be seen as no more than an adjustment to take account of

inflation. It has, however, the merit of exempting almost one-quarter of estates which would otherwise be liable to estate duty. More significant is the concession to owners of private companies and unincorporated businesses whereby the payment of duty may henceforth be spread over an eight-year period.

While on the subject of estate duty, although it may seem churlish to raise the point in view of the vast range of prospective reforms, it is surprising that Mr Barber could not find time to indicate his future policy in this area. Nowhere in the UK tax system is there so urgent a need for reform as in the field of capital taxation.

Practitioners will be interested to see how the Inland Revenue now propose to deal with the self-employed building sub-contractors, many of whom have been evading their tax liability. Readers will recall that last year's hope of ending these practices ran into difficulties. The Finance Bill will contain new proposals to deal with the problem.

To the extent that excessive spending is a major factor in generating inflation, any measure which stimulates saving, whether it be by persons or by incorporated bodies, is to be welcomed. It has been noted that the present level of personal saving has been rising, but there is little doubt that this is directly attributable to the prevailing uncertainty surrounding the future of the economy. Once the economy is seen to be in an expansionist phase, then not merely is the rate of saving out of current incomes likely to decline, but there is the danger that accumulated savings may be used to make deferred purchases.

Mr Barber thus has every reason for seeking to maintain the present high rate of personal saving. It is not altogether clear, however, that his new measures will make much difference. No doubt the more generous treatment of capital gains may revive interest in unit trusts on the part of the small saver; and, as far as surtax payers are concerned, where they are self-employed the increased allowances for section 22 annuities should help. The abolition of stamp duties will be a marginal factor in house purchase and even less in respect of deeds of covenant. However, these two concessions will cost the Exchequer only £3½ million in a full year, but they help to create the image of a new-broom Chancellor.

The Chancellor amply fulfilled his promise of simplification. Thus the intention to combine the income tax and surtax into a single graduated scale is long overdue. One can feel slightly regretful that it is intended to retain the existing discrimination between earned and investment income, but the Chancellor has promised that the discrimination will only apply above a certain level. Likewise the structure of indirect taxation will undergo major changes.

SET, halved for the present year, will disappear in 1973 as will the purchase tax. They will be replaced by the value added tax, the structure of which will be announced nearer 1973. In the meantime the Green Paper accompanying the Budget proposals will supplement the new edition of the NEDO study.

From the Government's point of view, however, the most important aspect of Mr Barber's Budget must be its effect on the economy. As he noted in his speech, 'if no changes in policy were made in the Budget, there would be a relatively small increase in output in the year ahead'. More precisely, had he not given some stimulus to spending and thereby encouraged business confidence, by the end of the year the trade recession would have intensified significantly. The consequent increase in unemployment would have been disastrous for the standing of the Government.

In the event, the reduction in the Exchequer's claims upon the taxpayer is rather larger than was widely expected. Mr Barber's proposals will reduce tax revenues by £546 million in 1971–72 (equal to £680 million in a full year). The effect upon aggregate demand of these reliefs will be less than the cost in terms of revenue; a proportion of the tax remission will be saved. On the other hand, there is to be no significant easing of credit; monetary control remains a crucial part of the Government's policy. In this context, results of the current study of the most effective means of regulating the credit system, which the Chancellor has promised, will be all important.

The precise effects of the reduction in SET are difficult to predict. Actual price reductions in the service and distributive trades are unlikely in a period when prices are bound to go on rising. It seems reasonable, however, to assume that in consequence of such tax reductions, the rate of increase in the affected prices will slacken. The cuts in direct taxation, more especially the higher income tax allowances and the substantial pension increases, will undoubtedly stimulate consumption. The consequent increase in demand will improve the climate for industrial investment.

Finally, as Mr Barber reminded the House, he is retaining the regulator which enables him to change, as required, the rates of Customs and Excise duties. The importance of this point is that it underlines the obvious determination of the Government not to allow the current recession in the economy and, in particular, the volume of unemployment to rise. And, in demonstrating this determination, Mr Barber has done as much for business and industrial confidence as any one could hope.

In the Public Service

THE Institute of Municipal Treasurers and Accountants has always been rightly jealous of its position as something more than a professional society of accountants trained to a high standard in the particular needs of the public service – impressive as that standard in itself is. From its earliest days, the IMTA has pursued the impersonal promotion of better local and public authority finance and accountancy, this being the first of its stated objects under its present Charter and one to which its Council continues to attach a particular significance.

Whilst the IMTA has not closed the door to 'integration within a united accountancy profession whenever the opportunity recurs', its members are now invited to consider – and at their next annual meeting to vote upon – proposals for its future which assume that it will remain a separate and independent body. The scope of finance within the public sector has shown a dramatic development during the Institute's lifetime, from the days when municipal councils were the only 'public authorities' of any consequence and when the central government, keeping its own accounts on a simple cash-book basis, confined its functions to matters of broad general policy.

Chartered municipal treasurers this week have received a booklet, *The Future of the Institute*, which includes a personal letter from their President, Mr F. Stephenson, F.I.M.T.A., an explanatory memorandum, and drafts of a proposed Supplemental Charter and revised bye-laws. The five features of the draft Charter and bye-laws which the Council considers stand together are:

(i) that the prime objective of the future Institute should be the science of public finance and accountancy in the public service;

(ii) that the title should indicate that the future Institute is an institute of public finance and accountancy;

(iii) that the future Institute should regard the continuation and fostering of accountancy profession membership as essential to its objectives, and that only members who qualify in accordance with the future Institute's professional criteria shall be entitled to describe themselves as professional accountant members;

(iv) that in order to fulfil the objectives the provision for membership should include academics and senior civil servants who make a significant contribution to public finance and accountancy;

(v) that the Council should be basically elected by the membership, but should include members from the main parts of the public service, including universities and the central government.

As these five principles are presented together as fundamental to the Institute's revised constitution, it follows that those members who cannot in conscience accept all of them will be committed to vote against. It is, if we may say so, the fourth item – the proposed broader basis of membership – which offers the greatest scope for significant debate. In the course of the explanatory memorandum, the Council recommends that the Institute should pursue as its objective 'a wider definition of the accountancy function than is at present accepted in some parts of the public service as appropriate to professional accountants', and makes the point that developments in several significant areas of public finance and accountancy 'are directed by senior civil servants who are not professional accountants, aided directly and indirectly by a number of academics specializing in public finance':

> 'In particular, the role of the professional accountant in the Civil Service has, to date, been very narrowly defined, and as a consequence the present image of the professional accountant is a narrow one. As a result of the Fulton Committee, a more liberal view of the use and value of professional accountants is likely to be taken in future. However, it is extremely doubtful in the short-run whether the role of the professional accountant in the Civil Service will be as broad as that which members of the IMTA have earned for themselves in local government.
>
> 'The Council considers that the future Institute should concern itself with the accountancy functions of programming, measurement, control and stewardship of resources, and do so with an understanding of the wider aspects of public finance in the economy. Believing that this is the proper role for the future Institute, the Council considers that it is an essential and inescapable consequence that the membership of the Institute should include, in addition to professional accountant members, academics and some senior Civil Servants who clearly occupy leading roles and have wide experience of these functions.'

If the Council's proposals are accepted, the IMTA will be renamed 'The Chartered Institute of Public Finance and Accountancy' and its members, other than those elected under (iv) of the five basic principles above, will be designated 'Chartered Public Service Accountant' (C.P.S.A.); the present division of the membership between fellows and associates will cease. Their proposed new designation perhaps lacks something in euphony, but nothing in aptness, recording as its does a state of affairs which *de facto* and *de jure* already exists. The 'municipal' image, though an honoured one, is now unduly restrictive.

Other membership proposals include provision for the admission as C.P.S.A.s of members of the other five

allied accountancy bodies who hold senior financial appointments in the public service, and for the creation of a second tier of 'accounting technicians' to meet 'the need for a different level and type of training from that of the qualified professional member'.

The present Charter of the IMTA requires constitutional amendments to be approved by 'not less than three-quarters of the corporate members [i.e., fellows and associates] present and voting at an annual general meeting of the Institute'. The Council, however, intends to take soundings by an informal postal poll of members on the new proposals, and will not propose the firm resolution unless this informal poll shows a substantial majority (defined as 'near to two-thirds of members voting and over') in favour.

In Mr Stephenson's words, 'The Council has given a firm and clear lead as to the future direction of the Institute'. The verdict is now in the members' hands.

CURRENT AFFAIRS

The Revenue Year

A CRITICISM frequently levelled at some of the more exotic taxes – particularly at a time when the Inland Revenue is known to be under pressure – is that the cost of collection is disproportionate to the yield. The annual report of the Commissioners of Inland Revenue for the year ended March 31st, 1970 (Cmnd 4615, HMSO, 65p) quotes the cost of collection of 'taxes on income, profits and capital gains' as 1·41 per cent of the net receipt of the taxes. This, it is clear, is an overall figure which includes extremes in either direction. For instance, the cost of collecting death duties was only 0·9 per cent of the yield, whereas the collection of capital gains tax cost 2·7 per cent of the yield before making any charge in respect of accommodation costs.

The Inland Revenue is continuing with its programme of centralizing PAYE work in a number of large centres equipped with computers and modern office equipment. Centre 1 (East Kilbride) was completed on March 17th, 1970, and now handles the records of approximately two million taxpayers. Despite complaints and a number of admitted difficulties during the period of transition to computer working, the department is now confident that Centre 1 will provide an efficient service to taxpayers in Scotland. Centre 2, in the Liverpool area, is intended to begin taking on taxpayers' records at the end of 1971, and work has started on the site for Centre 3 at Cardiff.

Recruitment to most grades of the Inland Revenue service remains difficult, and a large number of staff leave within five years or so of appointment, which not only means extra recruitment but also accentuates the problem of adequate staff training. Many branch offices continue to carry a large proportion of inexperienced employees, which has an inevitable impact on the quality of the work and is reflected in the number of cases referred to the Parliamentary Commissioner for Administration (*The Accountant*, March 4th). The total staff of the Inland Revenue on March 31st, 1970, numbered 68,632, plus 643 casual employees.

The Inland Revenue also operates a suggestions scheme whereby members of the staff may put forward suggestions for the improvement of office organization. This, it is reported, again proved very successful during the year to March 31st, 1970, and no fewer than 3,245 suggestions were submitted. A total of £1,133 was paid out in cash awards under the scheme, the highest individual award being £35: it is not, however, clear whether this would be regarded as a taxable emolument of the recipient.

Scottish Institute's Annual Report

THE dominant feature of the accountancy profession in 1970 was, of course, the failure of the integration scheme. Referring to this, the President of The Institute of Chartered Accountants of Scotland, Mr G. D. H. Dewar, C.A., observed in his foreword to the Institute's annual report: 'Crying over spilt milk serves no purpose. It is rather the future that must concern us'.

With an eye to the future of the Scottish Institute, it is encouraging to note that the decline in the number of indentures registered during the academic year to July 31st has been reversed. The 1968–69 figure of 269 was exceptionally low, and the total of 377 new registrations in 1969–70 is the highest for several years.

In common with other professional societies, the Scottish Institute has not been immune from financial problems during 1970. Despite an increase in subscriptions approved by members at a special meeting on June 21st last, the income and expenditure account for 1970 showed a deficit of £12,313 as against £8,874 for 1969. The increased deficit is attributed mainly to 'the rapid escalation of costs caused by the general inflationary climate', and a further deficit is expected in 1971. In these circumstances it has been necessary to make further proposals for a revision of the Institute's

subscription structure for 1972, with a view to restoring its finances to a sound basis.

Despite the failure of the integration scheme, the Scottish Institute has continued its fruitful participation in joint ventures with other bodies of accountants both in the United Kingdom and abroad. The joint committee of the three chartered Institutes on professional ethics has recently issued a statement on 'Company Registrar and Data Processing Services' ('Ethical Compromise', *The Accountant*, February 18th), and is shortly to report to the three Councils on a request from the Rt Hon. John Davies, F.C.A., J.DIP.M.A., that the accountancy profession, amongst others, should re-examine certain of its practices in the light of the Monopolies Commission Report. ('Monopolistic Mouse', *The Accountant*, November 5th, 1970). The Scottish Institute has also been represented in negotiations for the liberalization of reciprocal practice rights for members of various professions within the European Economic Community, and reciprocal recognition of professional qualifications.

Following our congratulations at this time last year to the first lady to win the Institute's Gold Medal, we now have the sadder task of recording the death during 1970 of the first lady to be admitted a member of the Scottish Institute, Mrs Isobel Clyne Lochhead (*née* Guthrie). The report (extracts from which appear elsewhere in this issue) also notes the passing of two former Presidents of the Institute, Mr Robert Ian Marshall, B.COM., C.A., (1958–59) and Mr Graham Aitchison Usher, M.B.E., T.D., C.A., (1961–62).

MR G. C. PATTERSON, C.A., senior partner in Scott-Moncrieff, Thomson & Shiells, Chartered Accountants, of Edinburgh, (*pictured above*) is expected to be elected President of The Institute of Chartered Accountants of Scotland at this week's annual meeting. It had been the Council's intention to nominate Mr Ian T. Morrow, C.A., F.C.W.A., J.Dip.M.A., who has been Vice-President for the past year, but owing to his heavy commitments in the setting up and management of Rolls-Royce (1971) Ltd it became clear that it would not be possible for him to devote the very great amount of time and energy that the office of President demands. Mr Patterson has therefore agreed to allow his name to go forward this year and the Council proposes that Mr Morrow should be nominated for election as President for 1972–73.

Mr Patterson, who was born at Eskbank, Midlothian, in 1912, was educated at Edinburgh Academy and qualified as a chartered accountant in 1935. He became a partner in his present firm in 1936 and during the Second World War served with the 32nd Light Anti-Aircraft Regiment, of which he became second in command.

A member of the Council of the Scottish Institute from 1962–67, he served on a number of its committees and was a member of the organizing committee for the European Congress of Accountants held in Edinburgh in 1963. Married, with two sons, he lists his principal recreation as golf.

Minister of Industry Opens Datafair 71

SIR JOHN EDEN, Bt, M.P., Minister for Industry, and Lord Robens, Chairman of the National Coal Board, expressed similar sentiments at last Monday's opening of Datafair 71 which continues throughout this week at Nottingham University. They were both in accord with the necessity for re-thinking in terms of management and organization so that the immense potential of the computer could be utilized. With Sir John's opening speech and Lord Robens's presentation of the first lecture on 'Computing and society', an impressive welcome was given to the several thousand people from accounting, commercial, industrial and scientific spheres who are attending this notable event in the British Computer Society's calendar.

Sir John expressed the view that the rising standard of living of the community depended very largely upon the ability to harness the computer and to apply its immense potential to the common good. Inevitably this meant that attitudes must change: old methods of management and old practices of labour had no relevance in the computer age.

Even by the next decade there would be very little of any significance to the country's economic well-being which would not be heavily influenced by the application of computer technology, he said. The whole range of business and commercial transactions would be processed by computer; most records and statistics (whether on the national, regional, company or personal level) would be on computer data files; news and information would be transmitted, stored and organized by computers and digital communication networks; traffic would be computer-guided; and factories and process plants would be operated by computer-fed instructions.

He believed the computer would increasingly become the invaluable servant of management at all levels of business – including, perhaps even pre-eminently, in that of government itself. This, he said, was not a spectre to be feared, but a prospect to be welcomed.

Lord Robens was convinced that computers would

affect the life of the nation through two distinct pressure points in that they would radically increase the productive potential of the economy and would displace present managerial thinking. He endorsed the need for 'Effective computing' – the theme of Datafair 71 – and called for a new level of educational adaptability so that organizational and social problems could be tackled and resolved.

Corporation Tax Reform

BY the time this note appears, some indication of the future shape of corporate taxation may have been disclosed by the Chancellor. The Conservative Party has already intimated that it will make changes, hence the only question concerns the form that any new tax on profits will take. Bearing in mind the need for adequate discussion of such fiscal changes, the Institute of Fiscal Studies has published an interesting and topical paper, *The Reform of Corporation Tax*, written by Mr John Chown, a founder member of the Institute.

After printing out that the 1965 corporation tax in Britain involved changes in both the structure and substance of the tax system, and that some of the consequences had not been foreseen. Mr Chown examines the pattern of corporate taxes in Europe. Using the recent report of Professor van den Tempel, which examines corporate taxation and its relationship with personal income taxes, Mr Chown discusses the three-fold classification used in that report.

The first system, which is currently used in the UK as well as the Netherlands, is termed the classical system, whereby the rates of tax on the profits of the corporation and the individual are independent of each other. The second system uses a double rate, as is the case with the current West German tax on profits of

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THIS IS MY LIFE

Some More Equal than Others?

by An Industrious Accountant

DETERIORATION usually conjures up a nebulous sort of mental image, but sometimes it becomes positive. Last week the typing pool supervisor came along to complain that the cushioned seats of her girls' chairs were worn through and needed replacement.

She somehow injected an emotional implication that her long-suffering girls were being exploited by hard-faced bosses – a slur which was hotly resented by the Office Manager; recriminations were exchanged and the argument was finally dumped in my lap.

Being an old hand at coping with such personality imbroglios by now, I appointed a small subcommittee to investigate. Half a day, I reckoned, would be adequate for its work, but its members unfortunately welcomed the change from routine chores so much that they made a meal of it (being old hands at empire-building themselves) and issued a questionnaire to all the rooms in the offices.

Reports of sub-standard furniture were asked for, and they got answers by the dozen. Nearly every chair in the establishment seemed to be rickety; nearly every cupboard had broken locks or warped doors; nearly every table was short-legged, wobbly, or stained beyond redemption.

Desks were too old, their drawers stuck, or they were smaller than Joe's, and as he was doing just the same level of work it was very unfair! The carpets (not so many of these, thank goodness) and the footmats, justified a separate chapter.

The committee co-opted an extra member – a typist – and a separate room for discussion, and by the second week hammered out a list of items unworthy of the company's social prestige. Sale to employees at scrap value, followed by replacement at a much higher standard, was recommended.

I sent back the recommendation, pointing out that most of the items had quite reasonable sale value, even though generally written off in our books. Two more meetings were necessary to fix appropriate prices (condemned by half the committee as exorbitant) and a list was posted up inviting applications to buy. A draw would be held if necessary.

This time we got answers by the score, proving that our estimates had erred on the low side, though our unabashed committee members wouldn't admit it even then. Noticeably, such popular items as the small tables and wooden desks were in great demand. Sinister under-currents were also apparent, since 18 different employees applied for Item No. 21, for example, 11 of them being in the same handwriting.

Several characters came along to mention persuasively that they'd dearly like to buy a few particular carpets or tables in advance, but I rejected their coaxing with cold impartiality. There would be no, repeat no, favouritism. Equal chances for all were ensured by the draw; justice must be seen to be done.

An hour before the draw the managing director wandered in casually to say he'd like items 7 and 19, and he supposed that it could be arranged without too much trouble.

Well, what would *you* do?

public companies, and this involves a lower rate on distributed profits than on those retained. The third system, which has been adopted in France since 1965, involves a set-off of the corporate tax on distributed profits against the income tax liability of the shareholder.

In a lengthy review of Professor van den Tempel's report, which opts for the first system, Mr Chown argues that where capital gains taxation is used, the advantages of profits retention for the shareholder are not as great as where no such charge is involved. Professor van den Tempel fails also to recognize the significance of the very high rates of personal taxation, as in the UK, in opting for the first system, i.e., that used in the UK.

In short, the theme of Mr Chown's general criticisms of the van den Tempel choice is that in devising tax reforms, one must pay attention to the whole structure, not merely to the tax to be charged. In particular, Mr Chown notes the effects this system exerts on direct investment in non-member countries, e.g., overseas investment by UK companies. Mr Chown finally comes down in favour of the French style tax and examines its implications in the context of the UK economy.

Investment Grants Transitional Arrangements

FIRMS intending to apply for investment grants now have until Thursday, April 8th, to notify the Department of Trade and Industry of contracts made before October 27th, 1970. Because of the disruption of postal services, the original closing date of February 28th (*The Accountant*, February 4th) has been extended.

Thoughts on Crowther

by BRIAN H. DOLLEY, LL.B.

SUCH publicity has been given in the national press to the main recommendations of the Crowther Committee on Consumer Credit for the protection of the private citizen that it would be all too easy to overlook the fact that the committee has also recommended an entirely new method of handling credit transactions irrespective of whether or not the borrower is entitled to the protection of the proposed 'Consumer Sale and Loan Act.'

The 'Lending and Security Act' recommended by the committee would not only replace all existing legislation affecting the general law of lending and security in personal property but would also regulate the taking of security of all tangible and intangible assets with the exception of land. Indeed, as it is often difficult in practice to classify transactions as loans or outright sales, certain sales which are recognized as being in reality financing transactions – e.g., the sale of accounts receivable under factoring arrangements – would also be brought within the scope of the proposed Act.

Plural registration

Although there is no doubt that many of the traditional forms of security currently available to companies incorporated under the Companies Acts will continue to be widely employed, there is the possibility that registration under section 95 of the Act of 1948 will no longer suffice unless the security is purely an interest in land – but even here a secured charge on fixtures would have to be registered under the Lending and Security Act. In particular, debentures and debenture stock will have to be registered under the new Act as well as at Companies House. However, the committee were prepared – possibly to avoid triple registration! – to make an exception by leaving charges on company-owned vessels registered under the Merchant Shipping Acts outside the scope of the new Act.

Under such an Act, many types of security would become registrable for the first time. In particular, individuals and partnerships – hitherto precluded from creating an effective security over moveable property unless they complied with the rigid requirements of the Bills of Sale Act – would be able to create fixed or floating charges over this type of asset. Moreover, although the wide range of hire-purchase, rental and leasing agreements at present in use does not have to be registered under section 95 where the hirer is a company, they would become registrable if the goods to which they relate are within the scope of the Act.

One important question to be asked is how these new methods will affect the practising accountant, assuming that they become law. On balance it would seem that there is much to recommend the new system.

Certainly the adoption of a uniform system of consumer credit will make it easier to advise one's client as to the implications of any transaction he may enter into whether as supplier, borrower or lender. The present system is in such a chaotic state that at times it is virtually impossible to express a firm opinion which will satisfy the lay client.

Although the proposed registration of security interests will lead to additional work, this does seem

desirable at first sight in the interests of those dealing with limited companies, even though it is now compulsory for them to file accounts annually. The alternative would be to require the showing in greater detail of all types of instalment credit transaction in the actual accounts, and it is widely recognized that unless one is able to search the Companies' Register in person it can be difficult to get sufficiently detailed information.

On the other hand, the proposed register will be computer-operated and hence will be able to produce very speedily, it is hoped, a simple statement of the fact that an interest has been registered, giving details of the type of security and the items charged.

Taxation treatment

Much more important to the accountant will be the taxation treatment of the interest content of the customer's repayments. Where the transaction has a true element of leasing – e.g., the finance lease, contract hire of motor vehicles or rental of certain types of installation – then the whole of the customer's repayments have been allowable for taxation, provided that the agreement was entered into in the furtherance of his business. Indeed, as the report points out, the taxation advantages to the lessor under a finance lease could be even greater than if he had purchased the goods outright for cash.

A further illogicality has arisen in the case of the finance lease. The only difference in law between a leasing contract and a hire-purchase agreement is that under the former there is no provision for the hirer to become beneficially entitled to the goods at the end of the agreement – were such a clause included the agreement would become one of hire-purchase. Yet it has become standard practice for the majority of finance houses to allow the hirer under a leasing contract a refund of rentals equivalent to the realized value of the goods when they are disposed of by the owner after the last rental has been paid – the distinction between ownership and receiving the proceeds of sale becoming somewhat blurred in the process.

Had the hirer acquired the goods under a hire-purchase agreement, he would have received taxation relief merely on the interest portion of his repayments: on the other hand, he would have claimed initial and annual allowances *pro rata* to his equity in the goods.

Where the instalment credit transaction was more in the nature of borrowing, the position was well established until the Finance Act 1969 disallowed virtually all interest incurred by individuals unless it could have been proved to have been incurred in business or in certain specified fields, e.g., the purchase or improvement of land. It will be interesting to observe to what extent the Budget will affect the position because, should there be a reversion to the general position obtaining before 1969, there may be considerable problems to be encountered. The Committee's recommendations for a unified system of consumer credit involve the amalgamation of various forms of agreement, including those which have been treated differently for taxation purposes such as contract hire and finance leases.

Indeed, it is significant that one of the main problems confronting the Committee in deciding which classes of customers ought to be protected under a Consumer Sale and Loan Act, was just where to draw the line between the business and the private borrower, and (as will be seen from the example which concludes this article), it is an impossibility in the field of consumer protection, as in taxation, to adopt relatively simple definitions without having to admit the possibility of an occasional inconsistency.

The Committee have stated their own position with regard to the fiscal law with exemplary clarity – that all finance charges arising from consumer credit transactions should be regarded in principle as interest on money borrowed, and that there should be no distinction in the treatment of such interest for tax purposes by virtue of the particular form of the transaction. As the Committee have proposed that the various forms of instalment credit agreement be swept away and replaced by a single loan agreement, it is surely desirable that, during the period of possibly five years that it will take to consider and give effect to the main legal recommendations, an equally simple taxation revision can be evolved, without which much of the practical benefit of the Crowther proposals will be wasted.

Occasional inconsistency

Even after such a patient and detailed examination of all the problems arising from the present chaotic system, the odd inconsistency may still arise and the following example may be of interest to those firms who have incorporated management companies under the Companies Acts to handle certain of their activities:

> B. A. Lance & Co are a partnership who have formed Parity Services, a company with unlimited liability under the Companies Acts, to handle their registration department. Both B. A. Lance & Co and Parity Services wish to acquire an electric typewriter each costing £350 on a finance agreement including service from the supplier.

As a body corporate and therefore specifically excluded from the provisions of the proposed Consumer Sale and Loan Act, Parity Services will not be able to claim consumer protection in accordance with the Crowther recommendations. B. A. Lance & Co through its partners will be able to so claim. Yet each transaction will be embodied in a document conforming to the proposed Lending and Security Act and the security interest of the lender will be registrable in the new registry and, in the case of Parity Services, presumably the amendments to the Companies Acts will make it registrable at Companies House.

Even if the occasional inconsistency such as shown above cannot be eliminated entirely, there is no doubt that the implementation of the Crowther Committee recommendations will bring clarity and simplicity to a branch of the law where reform is long overdue.

To Love and to be Wise . . .

II – Inflation: The Cure

by JACK CLAYTON, F.C.A.

Lies, damn lies and statistics. – attr. to Disraeli (*c.* 1850).
But of all wrong there is none more heinous than that of those who, when they deceive us most grossly, so do it as to seem good men. – Cicero (*c.* 50 B.C.).
The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes, and which consist always in the immediate produce of that labour, or what is purchased with that produce from other nations. – Adam Smith, *The Wealth of Nations* (1776).

HITLER learned from Lewis Carroll: 'what I say three times is true'; but the danger – as was Hitler's undoing – is self-deception.

'Incomes have generally risen faster than output; as a consequence retail prices have risen . . . .'

This political corruption of statistics has been exhibited so long on the page of *Economic Trends* headed 'Incomes, Output and Prices' (since 1965) that I suspect that even Professor Moser and his staff are beginning to believe it.

It is supported by an impressive graph that demonstrates its 'validity' by contrasting incomes at current prices with GDP at constant prices!

Post-war problems

All post-war Chancellors (as indeed, all First Lords) have resolved to 'stop inflation'; and then (with few exceptions – notably Peter Thorneycroft) have actively promoted it (see Table 1).

What they have done in pursuance of their resolve is to use every conceivable form of squeezing consumer spending; and this is perhaps best demonstrated by adding 1963 and 1969 figures to a simple table given in Cmnd 6261 (below).

The great consumer squeeze

In an earlier article,[1] I depicted the progress of the post-war consumer squeeze, – from 73·6 per cent GNP (1938) to 60·5 per cent (1968). In 1968 the going got tougher; Mr Jenkins (in his 1969 Budget statement) complained at the non-co-operation of the consumers – they insisted on living – and turned the screw tighter. One of the most vicious turns – the Government having spent all the money and run up enormous debts at home and overseas – was the disallowance of bank interest on private overdrafts.

Moreover, it coincided with a progressive switch of company finance, from equities to loans, thus exacerbating the off-loading – from companies to persons – of the increasingly onerous tax burden.

That government – prior to Jenkins – had not squeezed enough – brought about two devaluations: that Mr Jenkins's vicious intensification of squeeze had reduced the spending of the producers – the working population and the owners of the non-nationalized factories – to below a tolerable level is, as I foresaw in my earlier paper, the root cause of the present prices-wages explosions – the present anarchy.

Such a vicious squeeze is in direct conflict with the basic law of wages – relative wages – the demand of the producers, directly, for a 'fair share' of the goods and services produced.

Cut Government spending

'Our finances have been brought into grave disorder. No British Government in peacetime has ever had the

[1] 'Whom the Gods would Destroy', *The Accountant*, April 9th, 1970.

TABLE 4. PROPORTION OF NET NATIONAL INCOME DEVOTED TO VARIOUS PURPOSES

	1938	1940				1963	1969
		First quarter	Second quarter	Third quarter	Fourth quarter		
	£	£	£	£	£	£	£
Total net national income	100	100	100	100	100	100	100
Consumption	77	66	64	62	63	69	66
Central and local government ..	19	42	45	59	67	20	22
Net investment or dis-investment ..	4	−8	−9	−21	−30	11	12

power or spent the money to the vast extent and in the reckless manner of our present rulers. No community living in a world of competing nations can possibly afford such frantic extravagances. Devaluation was the offspring of wild, profuse expenditure, and the evils that we suffer today are the inevitable progeny of that wanton way of living.'

These are not Mr Heath's words, however apposite today – that declamation has the true Churchillian sonance. It is an extract from the 1951 Conservative manifesto.

During the past two decades, four determined attempts have been made to 'cut government spending': 1951, 1957, 1968 and 1970. The first was the most successful, reducing PSS by 5 points relative to GNP; the second was abortive *ab initio*, Peter Thorneycroft resigning as Chancellor when his colleagues refused to agree to a 'token £50 million cut'.

Dissembled in Mr Wilson's 1968 'January Paper' was a holding operation[2] (e.g., by deferring payment of investment grants) that temporarily reduced the ratio of PSS to GNP from 49·7 per cent in 1968 to 48·8 per cent in 1969, but the adverse trend has now re-asserted itself.

Mr Barber has a 'plan'[3]; faced with stagnation – growth of less than 2 per cent, estimated to be falling this year to about 1 per cent – he has taken the axe: he has cut the estimated rate of increase of PSS – from 3 per cent (as Mr Jenkins left it) to 2·6 per cent. Thus are further disasters, once more, carefully 'planned'!

The Treasury is clearly familiar with *Alice in Wonderland*, but they have reversed that immortal story: having partaken illiberally of the EAT ME cake, they have lost the DRINK ME bottle.

As Anthony Sampson wrote recently in *The New Mandarins*:[4] 'In Cabinet and in public speeches, they will speak passionately about the need for economy and cutting down staff: but once inside the department, they will defend every pound and every penny as part of their personal power.'

Perhaps the Queen of Hearts was right: 'Off with their heads.'

[2] Cmnd 3515.
[3] Public Expenditure 1969–70 to 1974–75, Cmnd 4578.
[4] *The Observer*, February 28th, 1971.

Keynes, Roosevelt and Friedman

'Ever since the inception of the British National Debt in 1968, money was borrowed in time of war and gradually repaid during periods of peace.'

Under the impact, however, of Keynesian ideas and Franklin Roosevelt's New Deal, that practice was abandoned in 1945; the National Debt (which had increased two and a half times during the Second World War – from £8,200 million to £21,400 million) was increased to a peak of £34,200 million in 1967.

Then Mr Jenkins accompanied his credit squeeze with an additional tax burden, covering not only PSS squandermania but also reducing the National Debt by about £1,000 million per annum.

The irony is that, instead of inflation thus being curbed, its rate doubled from some 3½ per cent to 7 per cent per annum. The further agony was all in vain.

Some of the winners and losers of a high-interest policy are also evident:

UK DAILY STOCK INDICES

	March 29th	*Year ago*
FT Ordinary (Blue chips) ..	332	397
Banks	130	96

Recte Numerare

Table 5 should dispose of the six-year-old distortion on page 28 of the current edition of *Economic Trends*. Gross personal incomes have certainly risen – from 94·3 per cent GNP in 1963 to 100·1 per cent in 1970; but the whole of the seeming improvement in relative wages has been mopped up by a 45 per cent relative increase in direct taxation.

Savings have remained steady but it is important to note that only a small fraction (if any) of the item recorded in the Blue Book as 'personal savings' is cash either in the pocket or the bank. On the contrary: for example, the Blue Book 1969 figure of £2,482 million (including £77 million transferred abroad and £94 million tax reserves) includes £1,794 million employers' contributions to pension funds plus estimated accretions, £774 million estimated capital consumption and stock appreciation; and the balance of £257 million is a *dis-saving*. And the vociferous 'company lobby' is still bemoaning their lack of liquidity!

There remains the bogey of 'prices chasing wages'. Table 6 should demonstrate that wages in general are still desperately trying to catch up with prices;

TABLE 5. DISPOSAL OF PERSONAL INCOMES

Pro-rata to GNP	*Total Per cent*	*Direct taxes Per cent*	*Take-home Per cent*	*Savings Per cent*	*Indirect taxes Per cent*	*Consumer spending Per cent*
1963	94·3	14·0	80·3	6·3	10·7	63·3
1964	94·4	14·5	79·9	6·7	11·1	62·1
1965	96·0	16·0	80·0	7·0	11·6	61·4
1966	97·3	16·8	80·5	7·1	12·4	61·0
1967	96·7	17·3	79·4	6·6	12·2	60·6
1968	98·4	18·5	79·9	6·3	13·1	60·5
1969	99·9	19·3	80·6	6·5	14·2	59·9
1970	100·1	20·2	79·9	6·5	14·3	59·1

TABLE 6. NATIONAL DIVIDEND 1963–70

How the GNP was spent

	1963 Per cent GNP	1969 Per cent GNP	1970 Per cent GNP	1963–70 + − Per cent	Relative wages 1970 1963=100
Personal incomes (less taxes):					
Pay	49·1	45·8	45·8	−3·3	112
Grants from public sector	6·7	8·1	8·1	+1·4	145
Other personal income (self-employed, rent, interest dividends, etc.)	13·8	12·5	11·7	−2·1	102
Net personal incomes	69·6	66·4	65·6	−4·0	113
Less Savings	6·3	6·5	6·5	+0·2	
					Relative spending
Private sector:					
Consumers' expenditure	63·3	59·9	59·1	−4·2	112
Fixed capital and stocks	10·5	10·8	11·2	+0·7	128
	73·8	70·7	70·3	−3·5	114
Public sector:					
Current account	33·7	37·6			
Capital account	8·3	11·2			
	42·0	48·8	49·5	+7·5	142
Exports *less* imports	0·4	0·9	1·3		
Total expenditure	116·2	120·4	121·1		
Less Transfer incomes, etc.	16·2	20·4	21·1		
Gross national product	100	100	100		
Gross national product at constant prices (1963=100)	100	118	120		

although the anarchic mode of so doing is deplorable. I must try to set forth the analysis in Table 5 in terms comprehensible to 'Mandarins' and even – I hope – to Cabinet Ministers:

TABLE 7. RELATIVE WAGES (1963=100)

	1963 £	1969 £	1970 £
GNP – at factor cost	100	118	120
PAY	100	109	112
Grants	100	142	145
Other personal incomes (self-employed, rents, dividends, etc.)	100	107	102
Total personal incomes	100	113	113

In brief: during the 'years of the locusts' (1963–70) personal incomes generally have been squeezed to 6 per cent below the relative-wages standards of the growth of GNP; pay is a little lower than average while grants have gone ahead twice as fast;[5] other incomes have been doubly squeezed – first by PSS and then later by the wage-explosion (the attempt of the organized workers to offset the squeezes).

Dynamically: the wages-explosion is exacerbating the anarchy induced by the British disease. During 1970, relative wages improved by 3 per cent (net of all taxes) without, of course, catching up, at the expense of other incomes – and, of course, within the general grouping of 'Pay', the best organized at the expense of the less-well organized and of the unorganized. Such is the anarchy of present industrial relations.

As regards spending, the facts are also now evident:

TABLE 8. SPENDING OF GNP
1963=100

	1963 £	1969 £	1970 £
GNP – at constant prices	100	118	120
Private sector spending:			
Consumers' expenditure	100	112	112
Capital formation	100	121	128
Total	100	112	114
Public sector spending	100	137	142

The squeeze on consumer spending has been intensified by swingeingly increased taxation (see Table 5); but capital spending has been increased – recently quite sharply – despite Sir Fred Catherwood's constant pleas of 'lack of liquidity'.

Unhappily, PSS is still mopping up most of the growth and – as Sir Ralph Hawtry put it so succinctly to the Radcliffe Committee – 'inflation is caused by over-spending'.

Union bashing

Written so soon after settlement of the Post Office strike, it may seem precocious to query the recent statement by the Prime Minister:

'We're beating inflation: the battle, already half-lost

[5] See my letter in the *Financial Times*, February 26th, 1971.

before we came to power, is now being won.' (*Sunday Times*, March 14th, 1971.)

I can only – with respect and humility – appeal to Mr Heath in the words of Oliver Cromwell: 'I beseech you, in the bowels of Christ, think it possible that you may be mistaken.'

Let me put the question in simple terms: against an 8½ per cent price rise, an annual wage increase of that order does not even preserve the *status quo*, because approximately one-third of the extra pay is deducted by way of tax and insurance. Nevertheless, I believe that the UPW was misguided in rejecting arbitration *ab initio* and in refusing to consider productivity payments.

Later events have not changed my general view: the level of wages determines, in general, not the level of prices, but the level of profits. But, like all general views, it is an over-simplification of a complex situation.

Primary cause

I believe – and this paper evidences the bases of my belief – that (*a*) the primary cause of the present prices explosion is the PSS spree of the last seven years; (*b*) union officials, at all levels, were slow to catch on; (*c*) the initial wage pressures stemmed from harassed housewives struggling to make ends meet, and via their working husbands to shop-stewards; (*d*) senior union officials lost effective control of their unions, and are now making extravagant demands – plus political demonstrations – in a desperate effort to resume control.

> 'Wage bargaining has become a tedious process of disorderly legalized extortion. No union leader nor individual management can afford to put the community interest first.' – (Lord Beeching, *Financial Times*, March 24th, 1971.)

This is anarchy; but we must dig more deeply for its roots.

Fair shares for all?

Facts are stubborn things: post-war growth has averaged some 2½ per cent; the recently issued 1970 'Preliminary Estimates' (Cmnd 4631) indicate 1½ per cent declining.

Even if restored to 2½ per cent – and that will not be easy – PSS mops up half of it leaving only 1 per cent or thereabouts (even with hope) for everything else – consumer spending, private capital formation and export.

Fair shares for all, at present, means – so long as growth is pre-empted entirely, or almost entirely to PSS – no general increase in real wages.

The present and developing anarchy in our society must be ended: it permeates not only industrial relations, but also the family and the arts – youth blindly seeking an ethic; the arts reduced to pornography and eroticism; the welfare state to a permissive society.

'Trust Ted'

Three – possibly four – post-war Prime Ministers have fumbled the heaven-sent chance to restore our eroding economic weal. All have failed dismally to understand the concept of Adam Smith (above): despite the Industrial Revolution, the GNP is still comprised of labour and capital (including interest) respectively in the approximate ratios of 3 : 1.

Instead of being treated as the milch-cow for financing public sector squandermania – including the 'gravy train' – they should be treated as the immortal fund so aptly defined by Adam Smith.

Mr Heath has been given a chance – perhaps the last – to save us from the culmination of decline so aptly delineated by Sir Fred Catherwood. Let us hope he, also, doesn't muff it.

Tronchin-James, in *Master of Men*, defined the basic rule of management as that of the family: 'Mutual trust and responsibility'; and advised his readers to seek the remaining rules in Exodus xviii.

This basic rule is even more essential to the ruler of a nation. But there can be no such trust while the British disease expropriates savings, decimates incomes and swingeingly increases personal taxes – together currently at a rate of some £25 million per day; while PSS mops up all – or substantially all growth – in direct conflict with the primary law of wages – relative wages; while Whitehall remains the fount of the 'rich nourishing gravy trains'; and while industrial relations are left in the anarchy so well described by Lord Beeching.

As Lord Beeching said in 1964 – although he seems since to have forgotten – 'the way to stop inflation is to stop prices rising'.

Anarchy, PSS, prices-wages explosion, the escalation of unemployment and bankruptcies: none of these can be tackled without a price freeze: a simple bill to establish that: 'No person may increase any price without consent of Her Majesty's Government.'

It would immediately give heart to harassed housewives and their children: there would be 40 million active unpaid umpires; and the force of inertia – the most powerful in nature – would be on the side of stability.

The Chancellor could agree budgets with each Minister; and none would be permitted to go through the hoary convolutions of 'constant price adjustments' to explain away any 'variances'.

It would restore sanity to the present anarchic industrial relations: no pay increase without real – and no fictitious – productivity and growth. Of course it would be harsh and unfair: but no more so than the present escalation of unemployment and bankruptcies; and the expropriation by inflation of £25 million per day.

Mr Heath clearly has the courage of his convictions: but if he is to outmode Gibbon, he must first confound Burke:

> 'To tax and to please, no more than to love and to be wise, is not given to men.'

LETTER FROM AMERICA

A Headless Watchdog

From Our New York Correspondent

AFTER several rejections, President Nixon tracked down a man willing to take on the thankless and controversial job of chairman of the Securities and Exchange Commission. The candidate for head of this much discussed regulatory body is Mr William J. Casey, who has the advantages of a Wall Street law practice, a private income equivalent to some £100,000 annually and an impeccable record of supporting the Administration in some of its most unpopular proposals, such as that for increased spending on the anti-ballistic missile system.

Congressional hearings on this nomination revealed, among other things, that Mr Casey had been the defendant in a series of lawsuits involving the securities laws that he would be responsible for enforcing. Even if the Senate goes ahead and confirms President Nixon's nomination, Mr Casey's effectiveness in his new role seems bound to suffer.

Administration apologists point out, however, that the American system of political appointments to regulatory functions does no damage to the agencies themselves, since they steam ahead regardless of changes on the bridge, which have no impact on the men doing the real work below decks. As if to prove the validity of this argument, at the height of the fray over the new chairman's appointment the SEC completed an enormous study of the effects of the dramatic growth of institutional business on the operation of the stock-market.

Answers wanted

The study, which has been in preparation for three years, raises all the thorny questions. How high should be the fees of investment advisors, and should stockbrokers be allowed to continue to offer this service? With funds such as Investors Overseas Services Ltd deliberately (and disastrously) set up in Canada and Switzerland to avoid SEC regulation, what should be the future scope for offshore unit trusts? Is it proper for institutions to influence the outcome of a take-over battle by wielding the power given them by the voting rights of the ordinary shares that they hold? Why do foundations, company pension funds and other huge operators on today's stock exchanges provide so little information to the SEC?

Answers to questions like these will be a long time coming. But, in the meanwhile, the SEC is on record that it is worrying about them and sees the need for stricter rules. Since the shape of those rules cannot yet be guessed, and must await firm guidance from above, the staff are concentrating their attention on more vigorous enforcement of those that are already clearly spelled out. A surprising example of what this may mean was provided by the filing, early this month, of a petition against one of America's largest and most spectacular natural-resource companies.

Occidental Petroleum Corporation is, indeed, a relative newcomer to this august circle. The genius behind it, Dr Armand Hammer, made his first money selling medical supplies in the wreckage left by the First World War – and converting the proceeds into priceless Russian *objets d'art*, some of which are still to be seen in a gallery on New York's Fifth Avenue.

It was not until the years following the Second World War that Dr Hammer became famous as a collector of companies rather than of icons. In a rapid series of acquisitions, he established a leading position in coal (through Island Creek and Maust), chemicals (through Hooker), sulphur (through Jefferson Lake) and fertilizers (through Interore) – as well as invaluable petroleum and real estate properties in the United States and the most productive oil concessions in Libya.

Cats and dogs

This astonishingly successful diversification programme exposes Occidental to the usual charges of creating 'instant earnings'. Dr Paul A. Samuelson of the Massachusetts Institute of Technology – jokingly known as the Nobelest of all economists since his winning of that prize – last week added to the chorus of complaints over conglomerate accounting by indicating that merger mechanisms were being used to transmute one investment dog into two investment cats.

It is true that Occidental's use of asset-pooling has been extremely aggressive, converting a loss equivalent to over £50,000 in 1960 to a gain of £73 million at the end of the decade. But the latest annual report (supported without qualification by the opinion of Messrs Arthur Andersen & Co) duly spells out the effect of the poolings – namely, that a restatement of the 1960, pre-merger results of the group of companies shows not a loss but a gain of some £8 million in that year.

In its petition, the SEC avoids the principles of consolidation and other basic accounting issues. It concentrates instead on detailed interpretations contained in interim reports – and even in press releases – over the last two years Thus, it charges that profits on real estate transactions and on sales to the Italian Government oil company were prematurely recognized and later written off, without adequate explanation to stockholders and the Commission.

One explanation of the SEC's investigation is that it perhaps felt obliged to look into the affairs of a company that has grown so fast and has very often been among the day's most actively-traded stocks on the New York Exchange. Although it could not have foreseen that the confrontation in Libya would remove much of Occidental's speculative glamour and cut the stock price to about one-third of its former peak, the Commission might have been expected to take a broader view of its responsibilities. Had it done so, it might have contributed more to the understanding of the acutely awkward problems of conglomerate accounting.

As it is, neither the shareholder nor the accountancy profession have gained much from this exercise of regulatory authority. Nor, of course, has the company. In consenting to the SEC's injunction, Dr Hammer denied that there had been any violation of law or of proper accounting practice, his main concern being to save the time of his executives in vindicating the company's position in 'costly and protracted proceedings'. At a time when companies in his business are exposed to so many other threats, it is hard to quarrel with his decision to take in stride the presently leaderless SEC.

Accounting for Mergers

Is the ASSC Mistaken?

by P. RAYMOND HINTON, B.Sc.(Econ.), A.C.A.

The exposure draft 'Accounting for Acquisitions and Mergers' (ED 3) issued by the Accounting Standards Steering Committee proposes new rules for accounting for amalgamations. It provides for classifying amalgamations as acquisitions or mergers and sets forth for each class a required method of accounting.

The method prescribed for mergers is new to many accountants as it has been used in only a few instances in this country. The 'Survey of Published Accounts 1969–70' published by The General Education Trust of the Institute of Chartered Accountants in England and Wales (The Accountant, *February 4th), cites six amalgamations where this method appears to have been used.*

The method prescribed for acquisitions is purchase accounting, which has generally been used in the past for all amalgamations in this country, modified by certain new rules.

IT is safe to say that ED 3 is destined to be one of the most significant and controversial pronouncements on the agenda of the ASSC. This is a sobering consideration, particularly as the debate during the exposure period indicates that opposition among professional accountants to the proposed accounting for mergers is growing, and that the financial community is only beginning to grasp what the consequences of adopting this part of the statement might be. Although conceived as having very limited application, it is possible that interpretations of the criteria for the merger method will gradually liberalize in the course of application until merger accounting will become an alternative to purchase accounting in a great number of cases.

Experience in applying this method in the United States, where it was developed, suggests that it is not adequately supported as a desirable standard, either in a conceptual sense or on the basis of actual experience, and its adoption and continued use would lead to a deterioration in the standards of financial reporting in the UK.

Definition of a merger

A merger is defined in ED 3 as an amalgamation where:

(1) the substance of the main businesses of the constituent companies continues in the amalgamated undertakings;

(2) an offer is made to equity voting shareholders and at least 90 per cent in value of the offer is in the form of equity voting capital with rights identical to the rights of the offeree's equity voting capital in issue;

(3) the equity voting rights in the continuing entity to be held by the shareholders of any one of the constituent companies is not more than three times the equity voting rights to be held by the shareholders of any other constituent company; and

(4) the offer is approved by the voting shareholders of the offeror and is accepted by at least 90 per cent of the equity capital (voting and non-voting) of the offeree company or companies.

Convertible loan stock or equity voting capital that can be converted into cash through an underwriting agreement are not to be regarded as equity voting capital for the purpose of (2) above. These criteria apparently stem from literature of the American Institute of Certified Public Accountants.

Since only 90 per cent of the consideration need be in the form of equity voting capital, the balance can presumably be in cash or other assets. A further point to note is that where the offer has been accepted by 90 per cent or more of the equity capital of the offeree, the entire transaction is accounted for by the merger method; the remaining 10 per cent may either continue as a minority interest or be purchased for cash or other assets. Since only 90 per cent of the equity capital of the offeree need accept and only 90 per cent of the offer need be in shares, it appears possible for the merger method to be used where only 81 per cent of the total consideration comprises shares.

Merger method

The substance of the merger method as envisaged in ED 3 is that the shares issued in effecting the merger are recorded at the book amount of the net assets of the subsidiary. In consolidation all book amounts are carried forward including the total of the shareholders' equity accounts. The nominal value of the share capital of the subsidiary is replaced by the nominal value of the shares issued as consideration and the difference between the two is accounted for by an adjustment to the reserves of the amalgamated undertaking.

Where the nominal value of the shares issued as consideration exceeds the nominal value of the shares received, the difference is accounted for as a capitalization of the

reserves of the amalgamated undertaking. Where the nominal value of the shares received exceeds the nominal value of the shares issued, the difference is viewed as a reduction in capital of the amalgamated undertaking which is reported as an undistributable reserve.

The most significant consequences of merger accounting when compared with purchase accounting are:

(1) *All assets and liabilities are reported at the amounts recorded on the books of the companies merged.* The assets and liabilities are carried forward in the amalgamated undertaking at the book amount previously reported. Such book amounts are unlikely to coincide with the fair values which, as regards the assets and liabilities of the acquired company, would be reported under purchase accounting.

Since the consideration in any amalgamation is based on the current fair value of the assets (net) on the other side of the transaction, such fair values represent the cost of the assets (net) to the amalgamated undertaking. Accordingly, where the merger method is used in an inflationary environment, the carrying amounts of assets that may be viewed as acquired assets are generally understated in relation to cost, and earnings reported subsequently are overstated.

The excess of the cost (fair values) of the net assets that would be recorded as acquired in applying purchase accounting over their book amounts is in effect written off to the share capital and share premium accounts of the amalgamated entity.

(2) *Preacquisition profits are reported as reserves available for distribution.* The retained earnings and other equity reserves of all amalgamated companies are combined and carried forward in the accounts of the amalgamated undertaking except to the extent that adjustments may be necessary in the consolidation process. Under purchase accounting, such reserves of the acquired company would be included in share capital or the share premium account.

(3) *Instant earnings may be reported.* Operating results in the year of the merger include the results of all amalgamated companies for the entire year irrespective of the date of the merger, and prior year results are re-stated on a similar combined basis. It may also be possible to include in current operating results the earnings of a company that is merged subsequent to the year-end but before the accounts are published. This is unlike the result under purchase accounting where preacquisition earnings are not brought into the reported amalgamated results. Instant earnings also arise from post-amalgamation disposal of duplicate and excess assets which in the amalgamation had been recorded under the merger method at amounts that are lower than the fair values that would have been recorded had purchase accounting been used.

(4) *Goodwill is in effect written off.* Since in applying the merger method the value assigned to the shares issued in the amalgamation as consideration for net assets equals the book amount of such net assets, no goodwill arises. The result is similar to recording goodwill under the purchase accounting method and then, as would be appropriate, immediately writing it off against shareholders' equity.

Legal uncertainties

Application of the merger method in this country begs two legal uncertainties that give rise to serious doubts concerning the legal status of the method. These concern the legality of (1) recording shares at their nominal value where such value is clearly less than the fair value of the assets received and (2) the carrying forward in the accounts of the amalgamated undertaking the retained earnings and reserves of the company acquired.

Section 56 of the Companies Act 1948 provides that:

> 'Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called "the share premium account". . . .'

However, a body of legal opinion has developed over the years which holds the view that an acquiring company is entitled to record the shares issued to acquire another company at their nominal value irrespective of the true value of the shares. This view is accepted in ED 3, although a contrary view is held by many.

It seems unlikely that the 'nominal value' interpretation was the intention of the legislation. The Jenkins Committee acknowledged the doubts as to the interpretation in relation to share exchanges and recommended that the legislation be amended:

> '. . . to provide that a share premium arises whenever a company receives value for and in excess of the amount credited as paid up on shares of a par value issued in exchange and that such excess must be credited to the share premium account . . .'.

Should this recommendation of the Jenkins Committee be adopted it would preclude the merger method proposed by ED 3.

There are doubts as to whether the retained earnings and reserves of any company other than the company that is considered to be the acquiring company may be legally carried forward in the accounts of an amalgamated undertaking. The Jenkins Committee recommended that the law relating to preacquisition profits contained in paragraph 15 (5) of Schedule 8 of the Companies Act 1948 be clarified in this regard.

American development of merger method

There is a serious question as to whether accountants, bankers and other professional and business people in this country generally have an adequate understanding of the American experience in using the merger method to judge fairly the results of applying it. This is not surprising when one considers the complexity of the question and the lack of clarity and the conflicting opinions in the literature on this subject. This experience is clearly a factor that should cause us to pause before leaping to adopt a practice that has not developed in the environment of this country to serve generally recognized needs and demands of the business community. As a minimum we need to obtain a grasp of their experience.

The merger method (called 'pooling-of-interests accounting' in the United States) was apparently first referred to in the literature in the United States in the early 1920s. It was originally applied in circumstances where the companies being amalgamated were related, there were no outside interests involved, and the amalgamation was merely a change in legal structure without a change in total assets employed or a change in ultimate ownership. It is interesting to note that present rules in the United States would not permit the method to be applied in such cases.

The method was later extended to amalgamations of unrelated entities involving exchanges of shares. It received formal recognition in 1950 in Accounting Research Bulletin (ARB) 40, issued by the Committee on Accounting Procedures of the American Institute of Certified Public

Accountants. ARB 40 set forth a number of criteria as guidance to identify the amalgamations for which the merger method could be used, but in no case was the method required to be used.

The first prerequisite for application of the merger method under ARB 40 was that in the combination all or substantially all of the equity interests in the predecessor companies continued in the new or continuing entity. Shares in the new or continuing entity were required to be distributed to the owners of the predecessor companies in proportion to their respective interests in the predecessor companies. In addition, the bulletin indicated the combination would normally involve companies of the same relative size and the management of each company would continue in the management of the amalgamated company.

The criteria contained in ARB 40 were revised in 1953 through ARB 43, and further in 1957 through ARB 48. The principal change made was to modify the relative-size criterion finally to permit a size disparity of as much as 95 per cent to 5 per cent. The size test was modified because to many it had appeared unsupportable. ARB 48 recommended that the merger method be used where the requirements of the bulletin were met except in states where the law in effect prohibited its use.

The subsequent history of the merger method in the United States was frightening. Although originally conceived as having a very limited application, it rapidly developed into a popular alternative to purchase accounting when the acquisition involved highly profitable companies or ones with significantly undervalued net assets. Interpretations of the rules were gradually 'liberalized' in the course of applying them to an endless variety of new circumstances.

Part-purchase, part-merger hybrid methods were used where cash and shares were both used in the exchange; various devices were used to qualify an amalgamation for the merger method when in substance cash and not shares were used in the exchange. Debt and share issue terms were designed to permit technical compliance with the requirements for the merger method when the intent of the bulletin had not been met in substance; acquisition transactions were designed, sometimes at considerable expense, to permit the merger method to be used and therefore enable the continuing company to report higher profits than would otherwise be possible; mergers were arranged solely to report 'instant earnings' having no real economic meaning. In practice, almost any proposed amalgamation where voting shares were a possibility as a major part of the consideration could be designed in such a way as to permit accounting for the amalgamation as either a merger or a purchase.

Lessons from the USA

In 1970 the American Institute published the exposure draft of a proposed opinion which encompassed accounting for both business combinations and goodwill. Many years of discussion and two formal research studies sponsored by the American Institute had preceded the publication of this draft; Accounting Research Study No. 5, 'A Critical Study of Accounting for Business Combinations' (1963), and Accounting Research Study No. 10, 'Accounting for Goodwill' (1968). Both research studies had arrived at substantially the same conclusion: that the merger method should be outlawed.

However, some members of the advisory committees for the studies expressed disagreement with this conclusion.

The exposure draft of the Opinion precipitated an unprecedented debate within the accounting profession and in the business community generally. The debate centred principally around the size test and the accounting for goodwill under the purchase accounting method. In the final outcome, two opinions were issued: Opinion 16 'Business Combinations', covering the accounting for amalgamations and requiring application of the merger method in certain circumstances, and Opinion 17 'Intangible Assets', covering the accounting for goodwill.

In the final drafting of Opinion 16, the size test criteria for the merger method was abandoned completely as unsupportable. This opinion compromises a number of issues and includes a large inventory of criteria for application of the merger method which are generally arbitrary and often complex.

One important lesson to be learned from the American experience is that once the merger method is accepted by the profession, it is difficult to limit or stop. Early in the APB's debate of the question that culminated in Opinion 16, it was reported that the APB had set out to end the merger method, and there is ample evidence that a strong majority of the Board was in favour of ending the merger method throughout the debate and up to the voting on the opinion.

However, the mixture of issues that the Board was called upon to resolve and the position of the Securities and Exchange Commission were important influencing factors. The SEC was in favour of preserving merger accounting in some form, apparently because of its bonds with historical cost accounting and its fear of asset revaluations associated with purchase accounting in share exchange transactions. It seems likely that the SEC was the overwhelming force in the survival of the merger method.

Accountants in this country, where revaluations are common would presumably have little sympathy for the SEC's basis for favouring the merger method. To the extent that revaluations are common in this country, there is a real sense in which merger method (which provides for the carrying forward of previous book amounts) contradicts our established practices.

Lack of conceptual support

The explanation in ED 3 of the conceptual support for the merger method is incomplete in regard to certain basic considerations. A review of this aspect of the draft, with the caution that the problem deserves, leads one to the conclusion that, in endorsing the merger method, ED 3 is at best premature.

ED 3 distinguishes between amalgamations which represent 'substantial changes in the ownership and business' of the combining companies and those which represent 'a continuation of the former ownership and business' of the combining companies. It states that the 'main concept underlying a merger is one of continuity of the amalgamating businesses. No assets have been distributed to shareholders and no new capital has been subscribed. The only change that has taken place is in the separate ownerships which are considered to have been pooled into one common ownership and reallocated among the individual owners.' The criteria detailed earlier in this article under 'Definition of a merger' may be interpreted as implying some measure of conceptual support, but it is not at all clear that the explanations that may be implied and those

expressed are co-ordinated and related to a single concept or objective.

ED 3 appears to take the illogical position that, since continuity of ownership is dependent upon the consideration comprising voting equity shares, amalgamations effected by the exchange of such shares necessarily differ in substance from amalgamations effected by the payment of cash or other assets or by the issue of debt. From this point ED 3 may then imply justification for the merger method on the basis that no exchange transaction establishing new cost amounts for any assets has occurred where the amalgamation is effected through voting shares.

Change in ownership interest

Although there is a certain trail of logic in this expressed or assumed explanation of the merger method, the preponderance of reasoning indicates, in the writer's own judgement, that the contention that the amalgamated entities both continue following the amalgamation, each with the same ownership interest, is a mirage. Regardless of the form that an amalgamation takes or the form of the consideration given, the facts relating to amalgamations invariably indicate that a change in ownership interest has occurred: one company has gained control over resources previously controlled by another company and/or the individual shareholders' relative voting power has changed.

The previous owners of company A held 100 per cent of the voting shares of company A; they now hold less than 100 per cent of company B, which now owns the business of company A as well as the business of company B. A measure of power to control has been given up in exchange for a greater aggregate of assets over which some degree of control can be exercised. An inherently different ownership interest is held.

An amalgamation invariably includes a company which is the dominant continuing management force; the substance of the amalgamation is that this company continues after taking over the business and assets of the other. In most amalgamations the dominant entity is clearly identifiable. It is usually the largest company in terms of total value of assets, earnings or voting rights. The fact that the size of both companies is the same, when this is the case, does not necessarily indicate the absence of a dominant entity. The dominant entity is identified as the one whose management takes overall control. Although some individual members of management of the acquired company may become a part of the management of the continuing entity, it is rare, if ever, that their power to direct the business is not in material respects altered or shared following the merger.

An important feature of the concept of continuity propounded in ED 3 is that the assets of the combining entities are not changed. In reality, however, there are frequently major changes in assets, some of which may be inherent in the factors that promoted the merger. The rationalization that generally follows a merger means that organization, production and marketing policies will change. These changes almost inevitably affect the assets of the former entities.

The conclusion to be drawn from the foregoing analysis is that amalgamations through shares represent the acquisition of one company by another and that shares issued to effect the acquisition are a form of consideration to be valued as if cash or other assets had been exchanged. Shares and cash or other assets are merely alternative forms of consideration. Accordingly, there appears to be no difference in substance between amalgamations effected by shares and those effected by cash or other assets. This was the conclusion reached by the authors of both Accounting Research Studies Nos 5 and 10. Without a difference in substance between amalgamations effected by shares and those effected by other assets there can be no case for a fundamentally different accounting based on the form of the consideration.

The lack of conceptual support for the merger method is suggested by the extensive, the changing, and the growing number of criteria that have been prescribed in the United States to ensure that the method operates as intended – which in itself is not clear – and to avoid serious abuses. In the United States during the period 1950–1970, the size test declined from 'large' to 'small' until it was eliminated completely; a requirement of continuity of management and a requirement that the activities of the companies be similar or complementary disappeared as criteria; and the number of other criteria doubled. We can already see signs in the United States of liberal interpretations of APB Opinion 16, and the APB has appointed a subcommittee to consider modifications or clarifications of the opinion based on the brief experience to date. The probability is high that history will repeat itself and the effectiveness of the present criteria will deteriorate.

The size test

ED 3 provides that in order for a transaction to qualify for the merger method each constituent company must be at least one-third the size (in terms of equity voting rights) of each other constituent company. The basis for such a size test is that it is believed to be necessary to ensure that the owners of the smaller business in the amalgamation have a sufficiently material voice in the affairs of the combined business to justify viewing the conditions as those of continuity of ownership. However, as explained earlier in this article, the contention of continuity of ownership is not supported by the facts in any amalgamation involving independent parties.

The size test cannot be supported as an accounting principle, it is at most a rule. What explanation is there for using the relative size of a company as a rule to determine which of two accounting methods must be used in accounting for the amalgamation transaction when the respective methods may produce radically different results? The fair values of all assets and liabilities are reported if, according to the rules set forth in the draft, the combining companies are not of relatively the same size, but the subsidiary book values (which may be materially different) are reported if the combining companies are of relatively the same size. In no other area of accounting does the size of the company in relation to another company or in relation to the size of a transaction affect the accounting in a material respect.

The illogicality of the size test can be illustrated by the following. If company A (size 100) and company B (size 300) combine, fair values are not recognized. If companies A and B combine separately with company C (size 1,000), the fair values of the assets of A and B are recognized. If, however, companies A and B were to combine first and then merge with company C, the fair values of the assets would not be recognized.

The size test may result in a form of discrimination against very small or very large companies which are less

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likely to have merger partners of relatively the same size; this could conceivably have legal ramifications. How can such a double standard be justified by any sound accounting principle? And why a three-to-one size test? Why not some other ratio? Any ratio is arbitrary.

Conclusion

ED 3 states:

> 'The practice has developed of distinguishing between amalgamations which represent substantial changes in the ownership and business of at least one of the companies and those which represent a continuation of the former ownership and businesses of the amalgamating companies. The emergence of this distinction has to be recognized and accounting standards must therefore be introduced to deal with the changed circumstances.'

The emergence of the distinction is a fact, but the notion of 'changed circumstances' is an illusion. The profession should not permit itself to be drawn in as a victim of changed circumstances if in fact the circumstances have not changed. The merger method of accounting for amalgamations is based on the concept of continuity of ownership, which on examination is denied by the facts of any amalgamation of independent parties.

The criteria set forth in ED 3 to identify when the merger method should be used are arbitrary, discriminatory among companies and shareholders, and lacking in conceptual support. The contention that the form of consideration given in the amalgamation and the relative size of the parties should dictate the approach to the accounting for amalgamations is unsupportable. There is abundant evidence from the experience of using the method in the United States that its adoption here would lead to a deterioration in our standards of reporting and that we should not adopt it.

The purchase method as outlined in ED 3 should be used to account for all amalgamations. Shares issued as consideration in an amalgamation should be accounted for in the same manner as shares issued for cash or other assets – at the fair value of the consideration given or the fair value of the assets acquired, whichever is the more clearly evident.

Books

The Machinery of Finance and the Management of Sterling

by A. T. K. Grant.

Macmillan, £1·50.

This particular study does not fit easily into any single category of such books. It does not describe the banking system or the financial markets; its level of economic sophistication is variable and the author touches upon a wide range of topics in developing his study of institutions both national and supra-national. It could be read by the student of economics, and even by the intelligent layman who is interested in financial matters and, in particular, sterling in its wider setting.

Yet behind the façade of a simple and clear exposition, often of matters which one feels are so well known as not to require restatement, there is a considerable level of sophistication based on a very thorough grasp of the subject. This is, in short, a very sound book suitable for the informed reader with more than average grasp of the financial structure of the U.K. if he is to get the full benefit of the author's knowledge.

But there is still a lot left for the not-so-well-informed, and it is well within their compass of understanding.

Papers on Planning and Economic Management

by Ely Devons, edited by Sir Alec Cairncross.

Manchester University Press, £3.

Professor Ely Devons died when 54 years of age. He was then occupant of a Chair in Economics at the London School of Economics to which he had come from a Chair in Manchester University. His entry into academic life after the war had been preceded by service in the War Cabinet Office and as Chief Statistician in the Ministry of Aircraft Production. Compared with some academics, Devons did not write a great deal but, unlike many of his peers, he had no great enthusiasm for much of modern theoretical economics. He was, however, deeply interested in administration and the formulation of policy.

This collection of papers, edited by a war-time colleague, Sir Alec Cairncross, who later became the government's economic adviser, ranges over a wide field. Devons discusses the development of universities, the Bank rate tribunal, and management and planning, among other issues. He clearly had both feet on the ground and a capacity for seeing the main issues clearly. Those whose views on economists fall short of flattering will find much to commend in these papers, in particular the author's readiness to speak his mind and question the post-war mythology on planning.

The Pound in your Pocket, 1870–1970

by Peter Wilsher.

Cassell, £2·50.

Even within the short space of time that has elapsed since this book appeared, its subject-matter must have been borne home on many more people. Basically its theme is inflation: the erosion of the purchasing power of the pound over the past century. Or as, Mr Wilsher, Editor of the *Sunday Times Business News*, puts it, the 'pound is not what it was'.

This is no dry-as-dust economic study; for the older

generation, who knew what sovereigns were, the book will evoke a host of reminiscences of the times when one really could have a night on the town for a shilling or two. Readers' memories of the days when the price of a rail ticket from London to John o' Groats was £2 19*s* 4*d* will enjoy the illustrations of goods advertised and feel nostalgic. Handmade Turkish cigarettes could be purchased in Piccadilly for as little as 3*s* 6*d* per 100.

Combined with the descriptions of goods and services available, there are interesting figures relating to the earnings of workers and taxation. For those with time and money to spare, as late as 1925, 2½ guineas per week would rent a six-roomed, centrally-heated bungalow at Chichester harbour (yacht and pony by arrangement!).

This book would make an excellent present for both young – who would thereby learn what it was like in the 'bad old days' – and for the old – who still dream of those 'good old days'. If we have to be reminded of the inflation of our times, at least Mr Wilsher does it very agreeably.

Three Sacred Cows of Economics

by ALEX RUBNER.

MacGibbon & Kee, £3.

The credibility of economists has suffered considerably in the past decade; no longer are they regarded as the high priests of economic progress, but rather as having contributed to the *malaise* of low growth rates and economic disorder which prevails at the present time. Mr Rubner does nothing in this book to change this image; indeed, he devotes a lot of words to pressing home the popular charges.

For him the three sacred cows are the gross national product as a measure of living standards; forecasting; and planning. These are easy targets to hit and, no doubt, the writings of some economists in recent times have made them especially vulnerable. But as with so many matters, all is not black or white; ultimately we are concerned with shades of opinion. The GNP may not be the perfect indicator of living standards, but do all economists worship at its shrine?

Forecasting has had some awful mistakes to live with, but does anyone dispute that forecasts must still be made in business, in government and in life generally? The point surely is not to pin too much faith on those forecasts. The same applies to planning; a measure of planning is necessary. The question is rather how to plan.

This is certainly a lively discourse on such matters, amply illustrated by references to recent events. To describe the book as a polemic would be unfair, but few economists would feel that Mr Rubner was always fair to them.

British Budgets in Peace and War 1932–45

by B. E. V. SABINE.

Allen & Unwin, £3·75.

Students of history and more especially taxation will be familiar with the trilogy of volumes on British budgets by Mallet and George which covered the period 1887 to 1932. It has long been a matter for regret that this series could not have been continued, but the publishers have now persuaded Mr Sabine to provide a continuation. His new study covers the formative years before the war and the wartime budgets which have set the pattern for the post-war rates of tax. Most readers will have forgotten that it was not until 1939 that the tax revenues topped £1,000 million.

Mr Sabine's approach to his subject has been to follow, in the main, that of Mallet and George. He has devoted a chapter to each of the Finance Bills from 1933 to 1945, providing a readable résumé of the Budget address together with a commentary on particular points of note. There follows a reference to the press reception of successive Chancellors' proposals, and then a review of the Budget and Finance Bill debates, followed by the author's comments on what he considers to have been the main features of the Budget.

For anyone who lived through those years and can still recall the state of the economy and the debates of the times, Mr Sabine has provided an interesting and concise history of those budgets. For the younger reader, and more especially the student, the full benefit of the book will not be enjoyed. Admittedly, in those years, the economic role of the budget was not stressed as it has been in the post-war period, yet the pattern of those budgets in the 1930s needs to be seen more clearly against the up-turn from the depression.

During the war years, economic and social considerations played an even more important role and, although Mr Sabine touches upon many such issues, there are times when one feels that these fiscal matters are taken out of the context of the events of those years. However, to do full justice to all these issues would have required a book twice as long and Mr Sabine has done enough to put many readers in his debt.

RECENT PUBLICATIONS

TARGETS AND INDICATORS OF MONETARY POLICY, edited by Karl Brunner. xiii+335 pp. 8½×5½. Chandler Publishing Co, £4·5.

FINANCIAL MANAGEMENT, by M. G. Wright, B.COM., A.A.C.C.A., F.C.C.S. xiii+291 pp. 8½×5½. McGraw-Hill, £3·50.

MANAGERIAL STANDARD COSTING, by J. Batty, D.COM.(S.A.), M.COM.(DUNELM), A.C.W.A. ix+221 pp. 8½×5½. Macdonald & Evans, £3.

TAXATION AND PROPERTY TRANSACTIONS, third edition, by Edward F. George. xxxiv+316 pp. 8½×5½. Taxation Publishing Co, £3·50.

GUIDE TO COMPANY BALANCE SHEETS AND PROFIT AND LOSS ACCOUNTS, seventh edition by Frank H. Jones, F.A.C.C.A., F.C.I.S. xxi+678 pp. 9½×6. Heffer, £6·50.

DYMOND'S DEATH DUTIES, FINANCE ACT 1969, SUPPLEMENT TO THE FOURTEENTH EDITION, by Reginald K. Johns. xl+343 pp. 9½×6. Solicitors' Law Stationery Society, paperback £3·75.

COMPUTING EARNINGS PER SHARE: UNOFFICIAL ACCOUNTING INTERPRETATION OF APB OPINION No. 15, by J. T. Ball. v+189 pp. 9×6. American Institute of Certified Public Accountants, paperback $3.50.

QUESTIONS AND ANSWERS ON ECONOMICS, by J. V. Tregenna-Piggott, B.COM.(BIRMINGHAM). v+73 pp. 7½×5. Butterworth, paperback, 60p.

ESSENTIALS OF INDUSTRIAL LAW, by Denis J. Keenan, LL.B.(HONS.), A.C.I.S., D.M.A., and Cyril Crabtree, LL.B., A.C.I.S. viii+468 pp. 8½×5½. Pitman paperbacks, £2, hardback £3·25.

BUDGETARY CONTROL AND STANDARD COSTS, by J. A. Scott. x+324 pp. 9×6. Pitman, £1·75.

These books may be obtained from, or through, Gee & Co (Publishers) Ltd, The City Library, 151 Strand, London WC2R 1JJ.

The Hazards of Practice

Risks and Remedies

by P. J. HUGHES, F.C.A.

HAZARD is defined in the dictionary as 'risk' or 'danger', and I believe that there has never been a time when accountants were so vulnerable as they are today.

Since the war, this country has been subjected through successive governments to an avalanche of legislation, the like of which has never before been experienced. We are now asked to advise on a great variety of broad business problems. In a welfare state, everybody wants the privileges but nobody seems to want to take responsibility.

It has become fashionable in America to 'have a go' at auditors and, with the big expansion of United States international trade this fashion, like most things American, seems to be spreading throughout the Western world.

The responsibilities now placed on members of the Institutes of Chartered Accountants, following the issue of the new statements of standard accounting practice by those Institutes, should not be overlooked.

It is becoming increasingly difficult to attract good trained staff and, if one can, salaries are very high. The advent of electronics in the field of accountancy poses new audit problems, and there is growing opposition to increased fees.

All these factors contribute to create a situation in which mistakes or errors are more likely to arise.

It seems to me that problems resulting from the actions (or inaction) of practitioners or their staff fall broadly into two groups:

(i) sheer negligence, or in other words doing a job incompetently; or

(ii) lack of knowledge, e.g., unawareness of particular areas of tax legislation which may only be met rarely, which is also negligence at law but perhaps morally excusable. This might be regarded as bad luck, but it still lays you open to a claim for damages.

Let us consider this more closely, dealing first with auditing. The liability of an auditor in relation to the work he has done has come before the Courts on various occasions. Most of the better-known cases are old and now superseded, but there is an increasing volume of new case law, particularly in the USA. As far as the United Kingdom is concerned, these cases indicate two general heads under which he may be liable in damages to his client, namely:

(i) for *negligence* where loss is suffered by the client by reason of fraud or error which he should have discovered if he had exercised reasonable skill and care, including liability to third parties; or

(ii) for *misfeasance* or breach of trust as an officer of the company under section 333 of the Companies Act 1948.

Negligence

The auditor's liability for negligence is a matter of common law and arises where the client has suffered loss by reason of fraud or error which the auditor should have discovered. The auditor is an agent in regard to his duties as an auditor, and as such must exercise reasonable skill and care in the performance of his duties. What constitutes reasonable skill and care depends on the circumstances of each and every case and of course on the standards ruling at the time in the profession as a whole. Remember, though, that even if negligence can be proved there will be no liability to damages unless the client can prove that he has suffered actual loss by reason of such negligence.

The damage which might be suffered by a limited company owing to the auditor's negligence will arise generally in one of two ways. As with firms and sole traders, the loss may arise through defalcations on the part of employees; on the other hand, it may be through the payment of dividends out of capital, or otherwise out of the overstatement of profits. The overstatement in turn has generally occurred through some mis-statement in the balance sheet, perhaps an overstatement of stocks or debtors or the omission of creditors.

It is important here to differentiate between limited company and other audits. The auditor of a limited company is required by statute to carry out a full audit and neither he nor his clients can restrict his responsibility or the scope of his work in any way. On the other hand, the auditor to private individuals or firms carries out the work he is instructed to do. It is vitally important, in the latter category, either to obtain full written instructions from the client or alternatively to write to the client himself setting out his instructions as they are understood. I believe that quite a number of recent claims would have been avoided if proper written instructions had been obtained.

Misfeasance

Misfeasance is the wrongful performance of a fiduciary duty. There must be a breach of trust or duty. During the lifetime of a company, the company itself may take action against the auditors for negligence; after the company has gone into liquidation, the liquidator may bring an action in the name of the company under section 333. It is well established that the auditor comes within this section as an officer of the company.

Cases

The first of these involved my own firm and illustrates the importance of 'getting it down *correctly* in writing'. This

The substance of a paper presented to the London and District Society of Chartered Accountants' recent course on 'The sole practitioner and the smaller firm'.

was *Trustee of Apfel (Moore) v. Annan, Dexter & Co* (1926). The trustee in Apfel's bankruptcy sought to recover damages of £28,600 from the defendants in that they had failed to discover that large sums had been converted by sons of the bankrupt to their own use. The plaintiff alleged that the firm had been employed as auditors; we said that we were employed only as accountants to prepare such accounts as were necessary for the purpose of income tax returns. Unfortunately, the fee account referred to 'the audit of your accounts' and 'auditing'. It was decided, very luckily in my view, that the work we did was accountancy for a specific purpose, and that we were not liable.

The second is much more important and is the case of *in re Thomas Gerrard & Son Ltd*, ([1967] 3 WLR 84). I would recommend you all to read this thoroughly, particularly because the omission of creditors appears to be a fairly common occurrence.

This case was about verification of stocks and cut-off procedure. Purchase invoices had their dates altered and were pushed into later periods, whilst sales were brought forward into earlier periods. Instead of being a prosperous company it was in fact making losses and eventually was wound up. Additionally stock figures were falsified. Proceedings were brought by the liquidator under section 333 for the recovery of tax overpaid, to the extent that this could not be recovered from the Inland Revenue, and dividends wrongly paid out of non-existent profits.

The auditors were certainly put upon inquiry but accepted explanations too readily without checking them. Specifically, they did not:

(i) prove the correctness of the company's cut-off procedure;

(ii) attend physical stock-taking;

(iii) check bought ledger balances with creditors' statements, and inquire into differences.

(iv) report the facts of altered dates on invoices and non-existent copy sales invoices to the board, but only to the managing director, who was the guilty party.

In the course of his judgment, Pennycuick, J., referred to the concept of 'reasonable care and skill' and continued:

> "The real ground on which *in re Kingston Cotton Mill Co* is, I think, capable of being distinguished is that the standards of reasonable skill and care are, upon the expert evidence, more exacting than those which prevailed in 1896. I see considerable force in this contention.'

Damages and costs were awarded against the auditors accordingly.

Responsibility to third parties

The judgment in the *Hedley Byrne* case ([1963] 2 All ER 575) came as something of a shock to the professions in general, although the case itself did not involve accountants.

Lord Morris, during his judgment said:

> 'I consider . . . that if someone possessed of a special skill undertakes, quite irrespective of contract, to apply that skill for the assistance of another person who relies on such skill, a duty of care will arise. . . . Furthermore if, in a sphere in which a person is so placed that others could reasonably rely on his judgment or his skill or on his ability to make careful inquiry, a person who takes it on himself to give information or advice to, or allows his information or advice to be passed on to another person who, as he knows or should know, will place reliance on it, then a duty of care will arise.'

Subsequently the Institute took counsel's opinion on the implications of the case as affects accountants' liability for negligence. This is fully set out in section V 8 of our *Members' Handbook*, where it is concluded that:

> 'Accountants may now be held in law to owe a duty of care to persons other than those with whom they are in a contractual or fiduciary relationship and may be liable for neglect of that duty if, *but only if*, they knew or ought to know that a financial report, account or statement prepared by them has been prepared for a specific purpose or transaction, will be shown to a particular person or class of persons, and may be relied on by that person or class of persons in that particular connection.'

The result in the *Hedley Byrne* case does prompt an interesting speculation on possible future practice. It may be that in time it will become customary to accept certain types of work only on the condition that the practitioner will not be liable for negligence, or that his liability might be limited.

Claims

Claims do arise from every size and kind of practice. Supervision will minimize but not eliminate errors. Both principals and staff, being human, can and do make mistakes, and a specious claim might easily arise from quarters hitherto considered friendly. Small firms, in proportion, have as great a risk as big ones but they are usually less able to bear the cost should a claim arise, and freedom from claims in the past is no guarantee of future immunity.

Claims experience shows that defalcations still give rise to the largest proportion of claims, with claims in the tax field in second place. You may be interested to know of some of the problems your fellow practitioners have encountered:

1. A clerk left out a substantial creditor which made the difference between the accounts showing an ordinary and a good profit. The error was discovered the following year, but in the meantime one partner in the business had bought out the other at a price based on the incorrect accounts. Fortunately, the deal was re-negotiated, but otherwise the firm would certainly have been open to a claim.

2. Insufficient attention was paid to the company's cut-off procedure, giving an extremely good result in year 1 and an extremely bad one in year 2. The amount involved was large, and the company concerned felt that, had they known of the true results for year 1 sooner, they might have changed their pricing policy. No claim was in fact lodged, although clearly there was some risk.

3. The accounts of a sole trader were prepared and reported on to the effect that no audit had been carried out. On the client's instructions, the accounts were sent to a bank in order to assist with negotiation of further overdraft facilities but after this had been done a significant error in the accounts was discovered. The accounts had been signed by both the practitioner and the client. No claim was initiated, although one might well have lain against the accountants under the *Hedley Byrne* rule.

4. The possible implications of section 28 of the Finance Act 1960 were not foreseen in arranging a scheme of reorganization of a group of companies and as a result tax assessments of £100,000 were made by the Inland Revenue. These were successfully resisted, but the client felt aggrieved that he should have to pay fees for resisting the Revenue claims and that the practitioner concerned should have foreseen these problems. The client may or may not have had a valid grievance, but it does illustrate the sort of difficulties which can adversely affect relationships.

If you want a second opinion...

Those who are involved professionally in advising other people on money matters may sometimes wish to take a second opinion. Usually this happens when questions arise which are outside their own professional sphere of expertise, or when the advisor seeks to reinforce advice of a long-term nature to a client's satisfaction.

In these cases, a second opinion approaching the problem perhaps from a slightly different angle and with a differing range of professional monetary disciplines, may be of great help to all concerned.

The difficulty may be that one is not certain precisely which skills are the appropriate ones in a given case. Where is one to find this? The answer is generally – in a merchant bank, which provides the widest variety of financial skills under one roof.

Ansbachers, the well-known London merchant banking house, is particularly well suited to this advisory capacity. Not so large as to be uninterested in any but very large clients, Ansbachers nonetheless provides a complete range of financial services and prides itself on dealing with all its clients' problems in a spirit of friendly co-operation. Ansbachers have offices in London and Manchester, where they welcome professional enquiries.

Henry Ansbacher & Co. Limited

1 Noble Street, Gresham Street, London E.C.2. Telephone 01-606 4010
or Dennis House, 1 Marsden Street, Manchester, M2 1HF. Telephone 061-832 5071.

TURNER & NEWALL LIMITED

Sales up-profits stable

Points from the Statement by the Chairman, Mr. R. M. Bateman

Fifty years of growth
1970 marked Company's jubilee; it enters the seventies strongly established in asbestos mining and manufacture; important manufacturing interests in other fields

Problems of the sixties
Political problems overseas, particularly over Rhodesia, and changing technologies complicated planning and progress in the sixties

Profits stable
Fall in home trading profit balanced by improvement overseas

Exports again a record
9% increase to £22,400,000 in direct exports from UK; indirect exports very substantial

Scrutiny of management structure
Cuts in surplus manufacturing capacity and home subsidiaries' overheads

Expansion by acquisition and internal growth
Purchase of Flexitallic companies, American manufacturers of specialised industrial gaskets with worldwide reputation; at home insulation contracting and glass fibre operations enlarged

Capital expenditure of £7,500,000
More than £5,000,000 spent in the United Kingdom; further capital expenditure of £3,400,000 already committed

Salient figures from consolidated accounts

Year ended 30th September	1970	1969
Sales to third parties	£122,366,000	£113,271,000
Direct exports from UK	22,405,000	20,537,000
Trading profit	12,005,000	12,024,000
Profit before taxation	12,218,000	12,516,000
Profit after taxation	7,060,000	7,362,000
Retained in the business	1,072,000	568,000
Fixed assets and long term investments	71,309,000	67,418,000
Current assets less liabilities and provisions	38,695,000	36,164,000

NOTE: The accounts of Rhodesian and Eastern Nigerian subsidiaries are excluded

Dividend: First and second interims totalling 10¾% equalling the total of the interim and final paid last year

The Annual General Meeting will be held at 36 George Street, Manchester on 29th April at 12 noon

TAC Construction Materials Ltd · Turner Brothers Asbestos Co Ltd · Ferodo Ltd · Newalls Insulation & Chemical Co Ltd
British Industrial Plastics Ltd · Engineering Components Ltd · Stillite Products Ltd · Turners Asbestos Fibres Ltd
Turners Asbestos Cement (NI) Ltd and 26 overseas mining, manufacturing and marketing companies

Even the specious claim can have unpleasant consequences. Thus, a firm of accountants repeatedly gave sound advice to the financial director of a company that it was heading for financial disaster. This advice was ignored for two years. The director concerned misled his own sister with untrue facts, and in due course the firm resigned as auditors. When the anticipated disaster occurred, the director claimed damages on the grounds of misleading advice. Quite clearly he had no case, but the matter was dropped only after a prolonged and bitter correspondence and some inconvenience.

Apart from overlooking deadline dates and similar errors in connection with tax work, some of the greater dangers appear to lie in these areas:

Defalcations, particularly in smaller businesses. – Whether or not the auditor would be liable in such a circumstance may well depend in the first instance on the terms of his appointment. This emphasizes the need for clear written instructions.

Work beyond normal competence. – A small practitioner may be tempted into a field outside the normal scope of his business, where his experience would be insufficient; for example, management consultancy, insolvency or public company audits. There must be many sole practitioners who have at least one very large client which has outgrown the practitioner.

Third parties. – Third parties such as banks or loan creditors, or even trade creditors, might be involved through relying on accounts which are subsequently shown to be incorrect. I have already touched on the *Hedley Byrne* decision.

Too much work. – Possibly the greatest overall danger to the smaller practitioner is of taking on more work than he can reasonably supervise, and of accepting work in which he is not fully competent to execute.

Prevention

Prevention is always preferable to cure, and action can and should be taken to guard against claims arising at all. The following points are worthy of consideration:

1. Be quite clear just what service it is you are rendering to your client.

2. Be clear in your own thinking of the different responsibilities between any form of statutory audit, where neither you nor your client can limit in any way the scope of your audit, and a non-statutory audit where your instructions may be limited.

3. Get your instructions in writing, or alternatively, set out in writing your understanding of the instructions given to you.

4. Educate your clients into understanding that internal control is their responsibility and that good internal control is the only really satisfactory way of guarding against fraud and misappropriation.

5. Report in writing to your clients on weaknesses and follow up such criticisms on the occasions of the next audit. If a company, report to the Board, and not to individual directors.

6. Make yourselves and your staff more efficient, study modern auditing techniques and use check lists. In passing, I would very strongly recommend you to read *The Business Approach to the Modern Audit*, presented by Martin Harris to the Oxford Summer Course in 1969.[1]

7. Don't be afraid to qualify your audit reports if you think you have due cause or are in doubt. The risk of clients leaving for this reason alone is often exaggerated, and in any event you must not allow any such consideration to influence you when expressing an opinion.

There is, of course, a limit to the precautions one can take and none of these could in any event be foolproof. However good a system of checks and routines, it is only as good as those who operate it.

Indemnity insurance

In the unlikely event of your ever having considered professional indemnity insurance an expensive luxury, I hope that you are by now disabused of the idea and that you not only appreciate the need but realize that much careful thought should be given to the necessary cover.[2] Claims have shown a definite increase since about 1945 and most especially in the last ten years.

When initiating or renewing cover, it is important to take the best advice available, and it is wise always to consult a broker experienced in this field. It behoves us all, as members of the English Institute, at least to consider the new Institute scheme, under which expert advice is available, even though the standard policy may not in the event be adopted.

Quite apart from the complexities of modern legislation which first attracts clients seeking advice and leads towards the inevitability of mistakes and wrong advice, the public has become increasingly aware of the fact that professional advisers of various kinds are insured, and are encouraged into initiating claims against them.

Another point to watch is whether cars used not only by partners, but also by staff and articled clerks, are insured for business use. Be particularly careful to see that the arrangements are adequate to cover the articled clerk who borrows his girl friend's or mother's car for going to a job. Some firms make it a rule that staff are not allowed to use their cars unless they confirm beforehand that their insurance cover extends to business use; some even take out blanket cover just in case somebody slips through the net.

The future

Crystal gazing is a dangerous exercise. In the long-term possible steps to alleviate the position might include the following:

(1) Limited liability for practising accountants, as has been proposed for members of the Stock Exchange.

(2) Some form of statutory limitation of liability for certain types of claim.

(3) The acceptance of instructions only on the condition that the practitioner will not become liable for negligence.

(4) The creation of a compensation fund by the Institute, similar to the Law Society and Stock Exchange.

We must all of us be aware of the risks which we run simply by being in professional practice; and, whilst one does hear of alarming circumstances and claims against practitioners, when viewed in the cold light of day and weighed against the numbers of practitioners in business the position perhaps is not as terrifying as it may at first appear. This does not mean we can view the situation complacently.

[1] *The Accountant*, July 12th, 19th and 26th, 1969.

[2] See, for instance, *The Accountant*, May 7th, 14th and 21st, 1970.

FINANCE AND COMMERCE

Lonrho's Diverse Activities

'THE Lonrho group is engaged in a variety of activities including mining, agriculture, textiles, construction, printing, packaging, brewing, wines and spirits, transport, shipping, motor trading and financing throughout Africa and in Mauritius, Ceylon and Europe.' That is the statement in the latest report of the directors of the company under the heading 'Principal activities'.

To a good many people 'Lonrho' simply means a share which was at one time a spectacular stock-market performer but which of late has not performed particularly well. From being a star growth proposition soaring from a price equivalent to 20p in 1967 to a peak of 311p in 1969, Lonrho became a 'bear' operator's joy and the price when the 1969–70 report was issued was around the 90p mark after being down to the equivalent of 79p in 1970.

The title, Lonrho, is a contraction of London and Rhodesian Mining and Land Co originally formed in 1909, and the name was changed to its present style in May 1963 when the growth really began. In the 'Review of operations 1970', the turn of the decade is taken as an opportunity to compare 1970 with 1961 and to point to 1961 profits of £158,000 and assets of £3,451,000 against the current £16,257,000 and £198,000,000. In 1961 earnings were 0·7p per share against the current 14p.

Divisional analysis

Whether such a comparison means a lot in real terms is a debatable point. What is probably more important in terms of company reporting is the inclusion for the first time in the Lonrho report of a breakdown of profits in terms of the main activities of the group. This breakdown is given as follows:

Activity	*Profit £*	*Percentage of Total Profit*
Mining and Finance	4,691,000	29
Shipping	868,000	5
Motors	3,058,000	19
Textiles..	1,526,000	9
Wine, Spirits and Beer ..	641,000	4
General Trading	1,417,000	9
Printing and publishing ..	616,000	4
Sugar	2,012,000	12
Other agricultural	525,000	3
Sundry	903,000	6
	16,257,000	100

Under the 'Mining and finance' heading comes the Ashanti Goldfields Corporation, which operates in Ghana, and Coronation Syndicate controlling a number of gold, copper and other base metal producing mining companies. Two South African collieries – Tweefontein and Witbank – sell a combined two million short tons of coal a year. In conjunction with Falconbridge Nickel Mines of Canada and The Superior Oil Company of the United States, Lonrho is establishing Western Platinum, a new platinum mining company near Rustenburg. The Lesotho Government recently offered Lonrho prospecting rights to the Kao diamond pipe, and a partnership agreement with another major mining company for exploration on a joint venture basis is being negotiated.

Beyond mining

Under 'Shipping', the company owns the Watergate Steam Shipping Co which is UK registered and whose present fleet consists of five bulk carriers with three new ships due for delivery at six-monthly intervals from April 1972. Rogers & Co is a group merchant shipping company in Mauritius.

In 'Motors', Lonrho is the biggest distributor of motor vehicles in Africa; franchises held there and in parts of Europe including British Leyland, General Motors, Ford, Mercedes Benz, Massey Ferguson, Kenworth, Alfa Romeo, Peugeot, Renault, BMW, Volkswagen, NSU, Datsun, Toyota, Honda and Rolls-Royce.

Group textile interests are strong in Africa, especially in Nigeria and Malawi, and there are plans for extending the amount and range of production. In contrast, unprofitable parts of interests in Lancashire, where six mills are owned, are being disposed of in a move to increase efficiency.

Brewery interests are largely in traditional African beer and new breweries have been opened in Uganda and Ghana. In the UK the development accent is on the retail side of the wine and spirits trade. The company has over 100 wine shops. Lonrho's French subsidiary is Louis Eschenauer, producers and shippers of Bordeaux wines. The 1970 vintage was unusually good.

General trading

General trading covers widespread operations in West Africa and the Congo, including port operations, mineral developments, agricultural finance, transport, hotels and merchanting and agency operations. Printing and publishing is carried out through the Consolidated Holdings Group in East Africa, covering printing, office supplies and newspaper operations. Two Tanzanian newspapers have been sold to the Tanzanian Government but six newspapers are owned, including the *Times* of Zambia which has the widest circulation of any newspaper in independent Africa.

Under the agriculture heading Lonrho is associated with some major agricultural enterprises in Malawi, Swaziland, Kenya and Mauritius. The group's six sugar mills in Mauritius, Swaziland, Malawi and South Africa produced 238,000 tons in the year to last September. An agreement was recently signed with the Ivory Coast Government to establish and manage a sugar industry on that Government's behalf capable of producing 50,000 tons a year.

Group tea estates in Ceylon, Malawi and Kenya are expected to produce 14,000,000 lb. of tea this year. Ranching sees the group owning over 80,000 head of cattle. Sisal estates in Tanzania were nationalized some three years ago and at the date of the report compensation negotiations were still going on.

Since UDI in Rhodesia, the group's interests there have

been under the control of local boards following the resignation of all senior Lonrho executives. The group's oil pipeline, an investment of £3·5 million, remains closed but the company continues to bear the annual costs of about £300,000.

Behind the Counter

THE days are long since past when banks were merely banks as private individuals know them. The clearing banks are now banking-financial institutions of considerable complexity. But it is not until one sees the services supplied listed in one place that the full extent of any one of the clearing bank's ramifications can be appreciated.

Under 'Group related companies' the National Westminster Bank's recently issued report listed 18 subsidiary or associated companies and their functions. Some are well known, such as Coutts & Co and the Ulster Bank. Others, like County Bank, are becoming well known. County Bank provides a comprehensive merchant bank and corporate advisory service and is effectively a merger of the former Westminster and National Provincial merchant banking activities.

Westminster Foreign Bank, which has deposits of over £800 million, provides a full commercial banking service and specializes in short- and medium-term finance, mostly for international operations. Westminster Foreign has a shareholding in Banco de Financiacion Industrial formed to provide medium-term finance for Spanish industrial development. Westminster Foreign has branches in Belgium, France and Nassau.

National Westminster has a 20 per cent interest in International Commercial Bank which specializes in medium-term credit on an international basis and a 25 per cent interest in RoyWest Banking Corporation based in Nassau and providing banking and trustee services in that area.

Orion Banking Group comprises three new companies set up in London jointly by National Westminster, Chase Manhattan Bank, Royal Bank of Canada and Westdeutsche Landesbank Girozentrale to deal mainly with the needs of large multinational corporations. National Westminster Bank Finance (C.I.) is a Channel Islands company taking deposits and financing mortgage lending and instalment credit to local industrial and private borrowers. Isle of Man Bank, apart from serving the island, offers tax advantages to people employed abroad who leave their overseas earnings at Isle of Man Bank branches.

Hire purchase and leasing

Northern Central Finance – a full subsidiary – is one of the leading hire-purchase, instalment credit and leasing houses. Lombard Banking, now wholly Natwest owned, is being integrated with North Central.

Centre-File, providing computerized accounting and valuation services for stockbrokers, an on-line accounting service for building societies and a comprehensive payroll service, is part of the Natwest group, and the bank holds approximately 49 per cent of the capital of The Diners Club, the credit card company.

Credit Factoring Ltd is Natwest's interest in that particular finance field both in the UK and abroad. Natwest is also associated with other banks in Airlease International which is engaged in buying passenger jet aircraft for leasing to commercial operators.

Finally, in more down to earth matters, Natwest owns 50 per cent of Westminster Hambro Trust Managers, the unit trust management company, and owns the Manchester Safe Deposit Company.

Lloyds Bank, Midland and Barclays all have their similar ramifications of interests, with Barclays and Lloyds particularly strong in overseas banking operations. Midland through Midland and International Banks has major overseas affiliations.

Ariel Industries

NO doubt many company chairmen and executives would like to be able to say the same as Mr Ken Edwards, M.A., chairman of Ariel Industries (Leicester), who in his annual statement says 'I feel we are very fortunate to enjoy excellent labour relations throughout the company'. This, he adds, 'to some large extent stems from the pioneering work we have done'.

Employees of the company are not only holders of a significant stake in the equity but also have a wages agreement that guarantees them a fair share of the company's prosperity. 'As a result', Mr Edwards comments, 'we have a very high level of co-operation and a widely held interest in seeing that the company succeeds. Undoubtedly the rewards from success in this area of activity can be very worth while for our employees and our shareholders alike.'

In the year to last November group profits were more than doubled at £307,596 against £152,637 pre-tax and adequate cash resources allow the company to take advantage of opportunities to supplement present product lines with profitable additions. The company was originally Steels and Busks, makers of corsetry accessories, but now that business is a much reduced, although profitable, part of a group covering industrial fasteners, engineering products and polyurethane products.

Past year profits meant a return of 14·1 per cent on capital employed and there is clearly confidence that the return can be improved.

Woolworth

WHATEVER critics may have to say about the earnings performance of F. W. Woolworth & Co in recent years, the fact is that Woolworth is one of the major British companies still operating its business with its own money. The 1970 accounts show end-year bank balances and cash at £19,932,880, compared with £15,408,456 at the end of 1969, and part of the improvement is due to a reduction in stocks from £44,947,029 to £42,347,472.

'Stocks', the chairman states in his review with the accounts, 'are lower despite the increase in counter footage and much research has taken place during the year on stock control'. It is believed that stockholding can be reduced still further with consequent benefit to the liquid cash position. Admittedly, the higher cash figure is compensated by a rise in creditors and accrued charges from £20,233,206 to £30,522,323.

Tighter control of stocks is one facet of the Woolworth general reorganization programme. Others are the concentration on store improvement and modernization (as against new store development), new centralized warehouse building, a complete property revaluation, continued expansion of the Woolco Department Stores and improvement management efficiency.

LONRHO LIMITED AND SUBSIDIARIES

Consolidated Profit and Loss Account for the year ended 30th September 1970

	Note	1970 £'000s	1970 £'000s	1969 £'000s	1969 £'000s
TURNOVER	A		**184,000**		***154,000***
PROFIT FOR THE YEAR	B		**16,257**		***14,438***
Including income from investments:					
Quoted		313		*304*	
Unquoted		992		*1,118*	
and after charging:					
Interest short term					
Bank		1,535		*1,062*	
Debenture and loan stock		45		*40*	
Loan		644		*536*	
Interest long term					
Debenture and loan stock		912		*922*	
Loan		314		*234*	
Depreciation	C	4,909		*3,703*	
Auditors' remuneration (Company £6,500 *1969 £4,000*)		270		*206*	
Taxation	D		6,100		*6,644*
PROFIT AFTER TAXATION			**10,157**		***7,794***
Minority interests			2,832		*2,784*
PROFIT attributable to equity interest			**7,325**		***5,010***
Company		3,865		*2,810*	
Subsidiaries		3,460		*2,200*	
Pre-acquisition profits	E				*991*
			7,325		*4,019*
DIVIDENDS, payable and recommended					
No. 63 at 2.5p (6d.) per share		1,251		*2p (5d.) 1,026*	
No. 64 at 3.75p (9d.) per share		1,877		*3p (7d.) 1,457*	
			3,128		*2,483*
PROFIT before transfer to reserves	2		4,197		*1,536*
Company		737		*327*	
Subsidiaries		3,460		*1,209*	

Notes on pages [422 and 424 to 425] form part of these accounts

Notes to Consolidated Profit and Loss Account

A. Turnover

Turnover represents sales of goods and services to external customers net of discounts and allowances and including commissions earned.

	Contribution to group profit before taxation 1970 £'000s	*1969* £'000s	*Proportions of total turnover* 1970 %	*1969* %
Mining, finance, industry and commerce	12,817	*11,361*	81	*81*
Agriculture, and sundry	3,440	*3,077*	19	*19*
	16,257	*14,438*	100	*100*

B. Profit for the year

The profits of subsidiaries acquired during the year are consolidated from the date of the accounts preceding the date of acquisition.

C. Depreciation

	1970 £'000s	*1969 £'000s*
Charge for the year	5,289	*4,386*
Adjustment arising on valuation of property		*(542)*
Overprovision arising on disposals	(380)	*(141)*
	4,909	*3,703*

D. Taxation on profit for the year

Overseas taxation (*1969 including minerals duty*)	5,628	*6,524*
United Kingdom taxation		
Corporation tax 42½ per cent. (*1969 45 per cent.*)	1,760	*2,342*
Income tax	20	*15*
Taxation equalisation	524	
Overseas tax credit relief	(1,140)	*(1,984)*
Overspill relief	(158)	*(110)*
Past overprovisions	(534)	*(143)*
	6,100	*6,644*

Taxation on profits for the year has been reduced by relief in respect of losses of previous years in certain companies and by allowances on mining operations.
Additional United Kingdom and Overseas taxes may arise on further distributions by subsidiaries.

E. Subsidiaries

Profits arising prior to dates of acquisition or dates upon which offers became unconditional have been treated as pre-acquisition profits.

F. Emoluments of the directors of the company

	1970 £	*1969 £*
Fees	195,600	*184,300*
Executive remuneration	64,400	*79,100*
Pension	4,000	*2,800*
	264,000	*266,200*
Chairman	59,000	*58,100*
Number of directors waiving fees	5	*6*
Amounts waived	12,600	*18,600*
Ranges		
Up to £2,500		*3*
£2,501 to £5,000	1	*2*
£5,001 to £7,500	2	*3*
£7,501 to £10,000	1	
£12,501 to £15,000	1	*1*
£15,001 to £17,500	1	
£37,501 to £40,000		*1*
£40,001 to £42,500	1	

LONRHO LIMITED AND SUBSIDIARIES

Consolidated Balance Sheet
30th September 1970

CAPITAL EMPLOYED

	Note	1970 £'000s	1970 £'000s	1969 £'000s	1969 £'000s
Share capital	1				
Authorised			20,000		20,000
Issued			12,521		12,286
Surplus on consolidation			6,004		6,467
Reserves	2				
Capital		35,132		33,532	
Revenue		7,482		3,429	
			42,614		36,961
TOTAL EQUITY INTEREST			61,139		55,714
Unsecured loan stocks	3		11,810		12,400
Long term loans	4		6,199		5,508
Short term loans and finance facilities	5		7,160		6,198
Taxation equalisation			2,413		1,899
Minority interests in subsidiaries	6		29,060		23,489
			117,781		105,208

Notes on pages [422 and 424 to 425] form part of these accounts

EMPLOYMENT OF CAPITAL

	Note	1970 £'000s	1970 £'000s	1969 £'000s	1969 £'000s
Fixed assets	7				
Freehold and leasehold property		41,946		38,808	
Mining property		22,958		19,110	
Plant and equipment, ships and pipeline		32,143		29,363	
			97,047		87,281
Nationalised assets	8		2,143		1,252
Investments					
Quoted (Market value £4,498,000 *1969 £4,647,000*)		3,797		3,693	
Unquoted (Directors' valuation £8,800,000 *1969 £7,538,000*)		7,994		5,973	
Loans		924		1,535	
			12,715		11,201
Current assets					
Stock and work in progress	10	39,942		35,754	
Debtors		37,743		27,447	
Bank balances and cash		8,191		8,899	
			85,876		72,100
TOTAL ASSETS			197,781		171,834
Current liabilities					
Creditors and bills payable		44,153		33,878	
Taxation		10,621		10,714	
Bank overdrafts					
Secured		6,261		4,053	
Unsecured		15,837		15,498	
Dividends nos. 63 and 64		3,128		2,483	
			80,000		66,626
			117,781		105,208

LONRHO LIMITED AND SUBSIDIARIES

Notes to Balance Sheets

1. Share Capital

Authorised—80,000,000 ordinary shares of 25p (5s.) each.

Of the authorised capital 6,033,720 (*1969—6,911,663*) shares were held against conversion of the convertible unsecured loan stocks at 30th September 1970.

Issued—50,021,674 ordinary shares fully paid and 302,500 ordinary shares 5p (1s.) partly paid.

A Share Option Scheme and a Share Incentive No. 2 Scheme have been introduced as follows:—

(i) The Share Option Scheme designed primarily for senior overseas employees came into effect on 1st May, 1970. Options may be granted for a period of five years and 1,000,000 ordinary shares have been made available for this purpose. At 30th September, 1970, options dating from May to September, 1970 have been granted to purchase 475,000 ordinary shares at prices of 111·25p (22s. 3d.) and 143·75p (28s. 9d.) per share.

(ii) The Share Incentive No. 2 Scheme which relates to senior employees in the United Kingdom came into effect on 1st September, 1970, and 1,000,000 ordinary shares have been made available for this purpose. At 30th September, 1970, 302,500 5p (1s.) partly paid ordinary shares have been issued at prices of between 105p (21s.) and 107·5p (21s. 6d.) per share.

At 30th September, 1970 shares held by subsidiaries totalled 61,073 (*1969—61,484*).

2. Reserves

Group	*Share Premium £'000s*	*Capital £'000s*	*Revenue £'000s*	*Profit and Loss Account £'000s*
Balance 30th September, 1969	27,736	5,796	106	3,323
Premium on shares issued on conversion of loan stocks	778			
Transfer between reserves		172	574	(746)
Transfer from taxation equalisation			10	
Changes in composition of the group			169	(123)
Surplus arising on valuation of unquoted investments		931		
Surplus arising on valuation of properties		894		
Net loss on sale of assets		(412)		
Amount received in connection with petroleum franchise		82		
Loss on disposal of subsidiaries		(846)		
Share option monies		12		
Expenses of share option and share incentive schemes		(11)		
Sundry items			(28)	
Profit from consolidated profit and loss account				4,197
Balance 30th September, 1970	28,514	6,618	831	6,651
	35,132		7,482	
Company				
Balance 30th September, 1969	27,736	1,496		589
Premium on shares issued on conversion of loan stocks	778			
Loss on sale of assets		(583)		
Share option monies		12		
Expenses of share option and share incentive schemes		(11)		
Profit retained				737
Balance 30th September, 1970	28,514	914		1,326
	29,428		1,326	

3. Unsecured Loan Stocks

	Group 1970 £'000s	*Group* *1969 £'000s*	*Company* 1970 £'000s	*Company* *1969 £'000s*
6 per cent. 1965/75	150	*150*		
6 per cent. 1970/75	100	*100*		
6½ per cent. 1975/80	438			
7 per cent. 1985/90	1,066	*1,078*		
7½ per cent. 1982/87		*173*		*173*
7½ per cent. 1983/88	4,654	*4,906*	4,654	*4,906*
7½ per cent. 1984/89	5,402	*5,993*	5,402	*5,993*
	11,810	*12,400*	10,056	*11,072*

Company

7½ per cent. 1982/87 The amount of stock outstanding was converted on 25th November, 1969.
7½ per cent. 1983/88 The stock carries the right until 31st December, 1978 to convert into the Company's ordinary shares of 25p (5s.) each in the proportion of £100 of stock to 60 shares.

3. Unsecured Loan Stocks—*continued*

Company

The Company may however redeem the balance of the stock outstanding:
(i) at any time prior to the 31st December, 1978 if 90 per cent. or more of the stock has been converted, or
(ii) at 31st December, 1978 if 75 per cent. or more of the stock has been converted.

7½ per cent. 1984/89 The stock carries the right until 31st December, 1980 to convert into the Company's ordinary shares of 25p (5s.) each in the proportion of £100 of stock to 60 shares. The Company may however redeem the balance of the stock outstanding:
(i) at any time prior to 31st December, 1980 if 90 per cent. or more of the stock has been converted, or
(ii) at 31st December, 1980 if 75 per cent. or more of the stock has been converted.

4. Long Term Loans

	Group 1970 £'000s	*Group* *1969 £'000s*	*Company* 1970 £'000s	*Company* *1969 £'000s*
Debentures secured				
7½ per cent. 1975		*12*		
5½ per cent. 1959/79	44	*44*		
7 per cent. 1976/80	986	*1,029*		
Loans secured	5,014	*3,082*	279	*279*
Loans unsecured	155	*1,341*		
	6,199	*5,508*	279	*279*

Secured and unsecured loans are repayable by instalments over varying periods with rates of interest between 5 per cent. and 9 per cent. per annum.

5. Short Term Loans and Finance Facilities

	Group 1970 £'000s	*Group* *1969 £'000s*	*Company* 1970 £'000s	*Company* *1969 £'000s*
Debentures secured				
3½ per cent. 1971	141	*143*		
6 per cent. 1975/79	200	*200*		
6 per cent. 1970/74	140	*175*		
7½ per cent. 1975	10			
8½ per cent. 1970/82	143	*150*		
Loans secured	1,935	*1,767*		
Loans unsecured	3,360	*1,652*		
Finance facilities for plantations, pipeline and aircraft	1,231	*2,111*	1,231	*2,111*
	7,160	*6,198*	1,231	*2,111*

On secured and unsecured loans, the rates of interest vary between 5 per cent. and 9 per cent. per annum.

6. Minority Interest in Subsidiaries

Proposed dividends amounting to £1,000,000 (*1969 £1,018,000*) are included.

7. Fixed Assets

Group	*Property* *Freehold £'000s*	*Property* *Leasehold Long term £'000s*	*Property* *Leasehold Short term £'000s*	*Property* *Mining £'000s*	*Plant and Equipment and Ships £'000s*	*Pipeline £'000s*	*Total £'000s*
Cost or Valuation							
At 30th September, 1969	28,974	13,599	2,480	23,662	48,940	3,590	121,245
Additions arising from acquisitions	788			159	622		1,569
Additions at cost	1,598	1,668	162	4,522	9,010		16,960
Transfers between asset accounts	595		(29)	(566)			
Transfer to nationalised assets		(847)			(306)		(1,153)
Cost of disposals	(505)	(618)	(60)	(873)	(2,784)		(4,840)
Surplus arising on valuation	98	194	217				509
Eliminated on sale of subsidiaries		(178)	(8)		(606)		(792)
Investment grants					(478)		(478)
Balance 30th September, 1970	31,548	13,818	2,762	26,904	54,398	3,590	133,020
Cost	19,206	8,052	1,847	11,266	51,844	3,590	95,805
Valuation	12,342	5,766	915	15,638	2,554		37,215

LONRHO LIMITED AND SUBSIDIARIES

Notes to Balance Sheets *continued*

7. Fixed Assets continued

Group

Depreciation	Property: Freehold £'000s	Property: Leasehold Long term £'000s	Property: Leasehold Short term £'000s	Property: Mining £'000s	Plant and Equipment and Ships £'000s	Pipeline £'000s	Total £'000s
At 30th September, 1969	3,626	1,786	833	4,552	22,894	273	33,964
Arising from acquisitions	84			5	205		294
Transfers between asset accounts	380		(8)	(372)			
Transfer to nationalised assets		(174)			(165)		(339)
Eliminated on disposals	(392)	(83)	(26)	(901)	(1,201)		(2,603)
Adjustments arising on valuation	(123)	(58)	(257)				(438)
Eliminated on sale of subsidiaries		(8)	(2)		(184)		(194)
Charge for the year	339	186	79	662	4,023		5,289
Balance 30th September, 1970	3,914	1,649	619	3,946	25,572	273	35,973
Cost	3,182	1,236	595	3,642	23,960	273	32,888
Valuation	732	413	24	304	1,612		3,085
Net Book Value							
30th September, 1969	*25,348*	*11,813*	*1,647*	*19,110*	*26,046*	*3,317*	*87,281*
30th September, 1970	27,634	12,169	2,143	22,958	28,826	3,317	97,047

Valuations

Assets shown at valuation were professionally valued at current market values as follows:

	Property: Freehold £'000s	Property: Leasehold Long term £'000s	Property: Leasehold Short term £'000s	Property: Mining £'000s	Plant and Equipment and Ships £'000s	Total £'000s
Up to 1967	3,101	1,093	76		529	4,799
1968	5,866	3,619	199	423	1,620	11,727
1969	3,013	750		15,215	405	19,383
1970	362	304	640			1,306
	12,342	5,766	915	15,638	2,554	37,215

Company

Cost or Valuation	Freehold Property £'000s	Plant and Equipment £'000s	Total £'000s
At 30th September, 1969	1,743	45	1,788
Additions at cost	36	1	37
Balance 30th September, 1970	1,779	46	1,825
Cost	235	46	281
Valuation—1968	1,544		1,544
Depreciation			
At 30th September, 1969	49	30	79
Charge for the year	3	4	7
Balance 30th September, 1970	52	34	86
Cost	52	34	86
Net Book Value			
30th September, 1969	*1,694*	*15*	*1,709*
30th September, 1970	1,727	12	1,739

Depreciation

(i) Group depreciation includes amounts provided by subsidiaries before they became members of the group.
(ii) No depreciation has generally been charged on agricultural land and expenditure on plantations, freehold property, or on the pipeline during the cessation of operations.
(iii) Leasehold properties have been depreciated over the term of the lease or 50 years whichever is less, except where the properties have been professionally valued during the year and in cases of very long leases.
(iv) All other fixed assets have been depreciated on the basis of estimated life.

7. Fixed Assets continued

Capital Commitments

	Group 1970 £'000s	Group 1969 £'000s	Company 1970 £'000s	Company 1969 £'000s
Contracted for, not in accounts	12,710	4,585	9	37
Authorised by the directors, not contracted for	579	1,833		669
	13,289	6,418	9	706

8. Nationalised Assets

Certain assets have been acquired by overseas governments and pending determination of the consideration are shown at book value.

9. Subsidiaries

	Company 1970 £'000s	1970 £'000s	1969 £'000s	1969 £'000s
Investment				
Shares		28,861		43,495
Loans due from	23,202		11,625	
due to			2,087	
		23,202		9,538
		52,063		53,033
Current accounts (including proposed dividends for the year)				
due from	8,050		5,759	
due to	3,808		343	
		4,242		5,416

10. Stock and Work in Progress

Stock and work in progress has been valued at the lower of cost and net realisable value and on a basis consistent with that of the previous year. Work in progress includes expenditure on various projects which are in course of investigation or development.

11. Contingent Liabilities

	Group 1970 £'000s	Group 1969 £'000s	Company 1970 £'000s	Company 1969 £'000s
Amounts uncalled on investments	91	955		
Guarantees	4,648	2,368	11,671	6,840
	4,739	3,323	11,671	6,840

Company guarantees amounting to £11,671,000 include £9,352,000 (*1969 £6,626,000*) for subsidiaries.

12. Exchange Conversion Rates

Overseas assets and liabilities have been mainly converted into sterling at the official rates of exchange at 30th September, 1970. Various exchange control regulations are in operation.

Auditors' Report

TO THE MEMBERS OF LONRHO LIMITED

In our opinion, based on our examination of the accounts and the reports of the auditors of subsidiaries not audited by us, the accounts set out on pages [422 to 425] together give, so far as concerns members of Lonrho Limited, a true and fair view of the state of affairs at 30th September, 1970 and of the profit for the year ended on that date and comply with the Companies Acts 1948 and 1967. The accounts of certain overseas subsidiaries, whilst complying with the law of the countries concerned, have not been independently audited.

London
29th January, 1971

FULLER JENKS BEECROFT & CO.
Chartered Accountants

CITY NOTES

ADJUSTMENT to the Budget rarely takes the stock-market long. There has to be some major upheaval, such as in 1965, for the stock-market to be put out for long by the results of the hours of rhetoric and the minutes of action that make up the annual exercise of the Budget speech.

This year the stock-market had belatedly come round to expecting a more reflationary Budget than had seemed likely even a month before the event. The steepness of the deterioration in the economy with rising unemployment, falling consumer spending, cancellation and postponement of industrial capital investment and falling order books in the engineering and machine tool industries, was itself a pointer to the need for a Budget that pumped funds into the economy rather than one that took funds out.

On that basic view the stock-market was not wrong. What remains to be seen is just how long it is before artificial respiration brings back signs of new life in the economy as a whole.

The stock-market – normally accepted as forecasting events six months ahead – will probably need something more than six months' grace if too bullish a view of equity markets is taken too soon.

* * * *

THE matter of the British Insurance Association and Vehicle & General Insurance shows just how fickle the modern business of sharpening 'the image' can be. The BIA did a good public relations job in sharpening the insurance industry's image, but did it so thoroughly that membership of the BIA was reckoned by the public to mean much more than was in fact the case. Membership of the BIA is not a guarantee of funds or a guarantee of performance, and not a guarantee of rescue.

For the BIA it was unfortunate that the run on the Derbyshire Building Society so closely demonstrated what building society membership of the Building Societies Association meant in terms of public protection while the failure of V. & G. showed what membership of the British Insurance Association did not mean.

What has happened is that the public may now have the impression that BIA members were more intent on seeing V. & G. fail than they were concerned with rescuing it from failure. That may be a wrong impression but it is an understandable one under the circumstances.

* * * *

THE matter of the Adepton-Williams Hudson bid is a difficult one for the City Take-over Panel to judge. Basically, the matter turns on the valuation to be placed on a bid made in loan stock without the bid being underwritten. The case, the Take-over Panel has admitted, 'has given rise to many matters of anxiety'. Having admitted that much and 'having considered that the offer should have been underwritten for cash', the Panel have promised further thoughts on the subject, meanwhile recommending that quotations of both Adepton and Williams Hudson should remain suspended.

* * * *

THE Stock Exchange Council's decision to allow stockbrokers to advertise – within limits – has brought out the best in the Stock Exchange's humorists. One of the most amusing of a facetious crop of suggested advertising slogans was 'If you want to make a small fortune come to us with a large one'. At the present pitch of the market the humour has to be sick.

RATES AND PRICES

Closing prices, Tuesday, March 30th, 1971

Tax Reserve Certificates: (25.2.70) Companies 5½%; 3% surrendered for cash; Personal 4%

Bank Rate

Oct. 19, 1967	6%	Sept. 19, 1968	7%
Nov. 9, 1967	6½%	Feb. 27, 1969	8%
Nov. 18, 1967	8%	Mar. 5, 1970	7½%
Mar. 21, 1968	7½%	April 15, 1970	7%

Finance House Base Rate – April 1st, 1971. 8%

Treasury Bills

Jan. 22	£6 15s 7·44d%	Feb. 26	£6·7157%
Jan. 29	£6 15s 5·39d%	Mar. 5	£6·6940%
Feb. 5	£6 15s 6·20d%	Mar. 12	£6·6659%
Feb. 10	£6·7668%	Mar. 19	£6·6416%
Feb. 19	£6·7299%	Mar. 26	£6·6242%

Money Rates

Day to day	5⅜–6⅞%	*Bank Bills*	
7 days	5¼–7%	•2 months	8–8½%
Fine Trade Bills		3 months	8–8⅛%
3 months	8½–9%	4 months	8 1/16–8¼%
4 months	8½–9%	6 months	8⅛–8⅜%
6 months	8¾–9½%		

Foreign Exchanges

New York	2·4181	Frankfurt	8·7775
Montreal	2·4355	Milan	1503·75
Amsterdam	8·6925	Oslo	17·2930
Brussels	120·03	Paris	13·3325
Copenhagen	18·0820	Zürich	10·3860

Gilt-edged

Consols 4%	44¾	Funding 6% 1993	71½
Consols 2½%	28	Funding 6½% 85–87	80⅛
Conversion 3½%	39	Savings 3% 65–75	87 1/16
Conversion 5% 1971	99½	Treasury 6½% 1976	95¾
Conversion 5¼% 1974	95⅜	Treasury 3½% 77–80	76⅛
Conversion 6% 1972	99¼	Treasury 3½% 79–81	73⅞
Funding 3½% 99–04	46½	Treasury 5% 86–89	66⅛
Funding 4% 60–90	97½xd	Treasury 5½% 08–12	63⅜
Funding 5¼% 78–80	84¼	Treasury 2½%	27¾
Funding 5½% 82–84	79½	Victory 4%	95½
Funding 5¾% 87–91	71⅛	War Loan 3½%	40¼

The Institute of Chartered Accountants of Scotland

Extracts from the Report of the Council

Accounting and Auditing Standards

IN December 1969, the Council of The Institute of Chartered Accountants in England and Wales published a statement of its intention to formulate definitive statements of accounting standards.

Subsequently, the Council of the English Institute decided to set up a committee called 'the Accounting Standards Steering Committee' and, after discussion with the Councils of the Scottish and Irish Institutes, it was agreed that the Committee should consist of 11 members of the English Institute, three members of the Scottish Institute and one of the Irish Institute. The remit to the ASSC requires it to submit to each of the three Councils proposed Statements of Standard Accounting Practice, with a view to the adoption of common standards by each of the three Institutes.

In order to support the work of the ASSC and give assistance to members in the practical implementation of Statements of Standard Accounting Practice, the Council of the Scottish Institute has set up a new standing committee, the Accounting and Auditing Standards Committee, with the following remit:

(*a*) to consider and deal with requests by members of the Institute for advice as to the interpretation and applicability, in relation to particular matters with which such members are concerned, of statements issued by the Council as regards accounting or auditing standards; and

(*b*) to investigate and take appropriate action with regard to circumstances where there may appear to the Committee to have been a failure on the part of a member of the Institute to comply with his obligations in relation to the application in any particular case of a statement by the Council as regards accounting or auditing standards.

Professional conduct

The function of the Institute's Professional Conduct Committee is to advise members of the Institute who are in doubt as to what they are or are not permitted to do when questions of professional ethics or etiquette arise. Members in doubt on such matters are invited to communicate with the Secretary, who, if any difficulty arises, will refer the matter to the Committee.

During the period under review, the Joint Committee on Ethics continued its work. Consisting of representatives of the three Institutes of Chartered Accountants, its purpose is to consider and, so far as possible, harmonize the pronouncements on ethics by the three Councils, and to make recommendations to the three Councils accordingly. This process led to the publication by each of the three Councils of a statement in identical terms on 'Company Registrar and Data Processing Services'.

The Joint Committee, on remits from the three Councils, has also been considering the implications as regards professional ethics of certain parts of the report of the Monopolies Commission upon restrictive practices affecting professional services. The Joint Committee is due shortly to report to the three Councils, so as to assist each of them in dealing with a request by the Rt Hon. John Davies, F.C.A., M.P., Minister of Trade and Industry, that the professional accountancy bodies (amongst others) should re-examine their professional practices in the light of the Commission's findings. In this work the Joint Committee was joined by representatives of the ACCA.

Research: Joint activities with other bodies

The Research and Publications Committee has maintained its friendly contacts with research departments in other countries, notably Australia, Canada, the Netherlands, New Zealand and the United States of America. Visits from Mr W. J. Kenley (then Assistant Director, now Director) of the Australian Accountancy Research Foundation and Mr J. de Jong of the Nederlands Instituut van Registeraccountants to discuss topics of mutual interest were welcome.

As in previous years drafts of papers were exchanged with other researching bodies and comments given and received, which were helpful to each party.

The Sub-Committee of the Research and Publications Committee charged with advising on definitions for the second edition of UEC Lexicon has carried on with its work. The Convener, Mr J. C. Stewart, has continued to serve as Chairman of the Commission de Lexicologie Comptable de l'UEC, and members of the Sub-Committee have attended meetings of a French/German/British Sub-Committee of the Commission, as in previous years.

Computer Committee

The Computer Committee continued throughout the year to watch over computer matters which might affect accountants or auditors. Following up its action of the previous year, the Committee collected from computer bureaux information regarding standard programs likely to be of help to members of the accountancy profession. A schedule of these packages is maintained in the Research Department of the Institute, and information about them is available to members on application to the Secretary.

Farm records

It was reported last year that, in co-operation with the Scottish Colleges of Agriculture, the Department of Agri-

culture and Fisheries for Scotland and the National Farmers' Union of Scotland, the Committee on Farm Records was seeking to bring about the publication of a booklet describing and illustrating an agreed method of farm enterprise analysis. Meetings were held in the course of the year to iron out certain problems, but progress has not been as good as had been hoped, largely due to other calls on the time of all concerned. There are now no points of disagreement among the various parties, and the remaining work consists of agreeing the exact form in which the publication shall appear.

Taxation

Co-operation with the other constituent bodies of the AJPC on matters relating to taxation continued in 1970–71, during which year representatives joined the AJPC from The Institute of Cost and Works Accountants and The Institute of Municipal Treasurers and Accountants. It is clear that the Revenue give more weight to these joint representations than they previously gave to the views of the individual bodies, and, as is clear from the number of working parties set up, are happy to accept the AJPC as representing the accountancy profession in the United Kingdom.

Representations regarding anomalies and practical difficulties arising from fiscal legislation were made in the Joint Memorandum on the Finance Bill 1970 and the Joint Memorandum of Anomalies submitted, following the usual pattern, to the Chancellor of the Exchequer in May and November 1970 respectively. Following each submission meetings were held with officials of the Inland Revenue to discuss in detail the contents of the memoranda. Comments were also submitted on a joint basis on the White Paper *Investment Incentives*, published by the Government in November 1970, which set out proposals for changes in the system of capital allowances to be given effect to in the Finance Bill 1971.

The Working Party on Tax Rationalization, consisting of representatives drawn from the accountancy profession, the legal profession and the Confederation of British Industry together with representatives of the Inland Revenue and the Treasury, which was set up in 1969, has continued to meet during the period covered by this report. The working party includes one member of the Scottish Institute. The accountancy bodies have maintained pressure on the Government to impress on it the importance which the profession attaches to securing simplification of the taxation system. In furtherance of this the Presidents of the Scottish and English Institutes had a meeting with Mr Patrick Jenkin, the Financial Secretary to the Treasury, in August 1970, and in January 1971 the position of the accountancy bodies on this matter was explained to a special meeting of accountant members of Parliament.

In view of the difficulties being experienced by members in Scotland with the Inland Revenue Computer Centre at East Kilbride, which deals with PAYE records for the whole of Scotland, arrangements were made for officials of the Centre to attend meetings of members in Edinburgh and Glasgow, to discuss the problems which have arisen.

Liaison with Scottish universities

The long-standing arrangements whereby CA apprentices take courses in accountancy, law and economics at Scottish universities have established close relationships between the universities concerned and the Institute. These relationships, and relationships with other Scottish universities, have been strengthened by the development of the wide range of exemptions and concessions which the Institute is now able to offer to graduates who, before entering apprenticeships, have studied accountancy in depth for the purposes of their degrees.

The Institute's policy is to give the fullest support to the accountancy departments of the Scottish universities and to encourage the increasingly widespread recognition which accountancy is receiving as a major academic discipline.

Post-qualifying education

The Post-Qualifying Education Committee arranged a very full programme of courses in 1970, including most of those which had been presented in the previous year with a number of additions. There was a total of 1,069 participants of whom 55 per cent were members, 14 per cent were from other accountancy bodies, and 31 per cent were non-accountants: this represented a total of 2,480 man-days of courses throughout the year.

A questionnaire issued in relation to each course enables the Committee to form a clear assessment of the reactions to it of the participants: overwhelmingly, the participants are seen to be highly satisfied with what has been provided.

The programme of courses in 1970 was presented under three main headings – Professional Subjects; Management; and Computers and Analytical Techniques.

Practice rights in Europe

A study group of accountants drawn from the six member countries of the European Economic Community has for some years been considering with the appropriate authorities in Brussels means of implementing the provisions of the Treaty of Rome as regards liberalization of reciprocal practice rights for members of the various professions of EEC countries and reciprocal recognition of professional qualifications. From time to time, the Committee (known as the 'Commission Saxe', after its founder, the late M Léon Saxe, of Belgium) invites observers from the EFTA countries to receive reports of developments and to consult as to future plans. The Scottish Institute has been represented at these meetings.

Advisory Board of Accountancy Education

A new Advisory Board of Accountancy Education has been appointed: it held its first three meetings in 1970. The board is a large one and has serving on it not only representatives of the three chartered institutes and of the ACCA, ICWA and IMTA, but also representatives of universities and colleges of further education. The essential purpose of the board is to give advice to the Councils and appropriate committees of the participating accountancy bodies and to encourage co-operation among these bodies and between educational and other institutions and the profession.

Membership

The membership of the Institute at December 31st, 1970, was 8,608, compared with 8,453 a year earlier. During 1970 the number of new members admitted was 243, of whom 47 (19 per cent) were graduates with degrees approved for training under Schemes A or B.

Accounting Principles and Management Accountants

Need for Professional Co-operation

by Professor EDWARD STAMP, M.A., C.A.

A leading article in The Accountant *for March 25th referred to criticisms of the present composition of the Accounting Standards Steering Committee. Addressing a recent conference of The Institute of Cost and Works Accountants at the University of Lancaster, Professor Stamp called for the joint participation of financial and management accountants in the formulation and development of accounting principles. The substance of his paper is reproduced below.*

BEFORE dealing with the role of the management accountant, let me first of all define, in general terms, what it is that I think is wrong with the current state of financial accounting theory and practice. I believe that amongst the main deficiencies are:

No general theory of accounting. Accounting rules, methods, principles, call them what you will, have evolved on a higgledy-piggledy basis. The accounting profession insists that the responsibility for published financial accounts rests with the directors who produce them. The function of the auditor is to make whatever examination he feels necessary in order to express his independent and expert professional opinion as to the truth and fairness of the accounts. An auditor has no right to change accounts even though he may believe they contain errors, and, if he cannot persuade the directors to change them, all he can do is to qualify his report.

Irrelevance of conventional information. People read financial accounts because they wish to use them in order to make financial decisions. All such decisions are future-oriented, and yet the conventional set of published financial accounts is entirely past-oriented. When managers require to make financial decisions, they expect their management accounting reports to contain the relevant data, and much of this data is therefore expressed in opportunity costs and not in historical cost.

Contemporary financial accounting principles are outdated. Financial accountants are armed with bows and arrows in the age of the megaton H-bomb. Thus, the doctrine of conservatism and the realization principle are well suited to the days of the small family company, when owners and managers all came from the same small group. Such ideas are not relevant to the needs of the owners of the modern industrial corporation, in which management and ownership are almost entirely divorced from each other.

Failure to recognize the objectives and purpose of accounts. Any manager, or management accountant, worth his salt is aware of the primary need to establish objectives and then to develop plans to reach the objectives. It is another curious feature of contemporary accounting practice that, whilst the importance of setting objectives is well recognized by management accountants, it seems to have been almost entirely overlooked by financial accountants.

Presentation of spurious impression of accuracy. Financial accountants give an impression of great precision when they report their measurements, and published accounts frequently express measurements in the millions which are apparently accurate to the nearest ten or hundred pounds. The basis of measurement is also sometimes given, but the reader is seldom warned that alternative bases are also available, and might have been equally acceptable.

I suggest that it is unwise of accountants to go on pretending that their measurements are more accurate than they know they really are, and then to expect the layman to accept as an excuse, when things go wrong, the so-called limitations and uncertainties of financial accounts. If we expect people to excuse our errors we must be prepared to admit, in advance, the likelihood, indeed the certainty, of their existence.

I have been unable to convince any of the members of the Accounting Standards Steering Committee that the publication of measurement error estimates, along with the presentation of several different measures based upon different relevant underlying assumptions, would add rather than detract from the value of financial accounts. On the contrary, I am sure that they all think I am quite mad to make such a suggestion!

Delay in production of financial accounts. It is not uncommon in this country for shareholders to receive their annual accounts six months or more after the company year-end. Management accountants are quite accustomed to presenting relevant information in a timely manner, along with a clear indication of the various assumptions upon which the measurements and estimates have been made, and the likely margins of error. More thought needs to be given as to why it is that management accountancy seems to be so much better at serving the needs of its users than is financial accountancy.

Differences in attitude

Management accountancy is not concerned with gaining general acceptance for the accounting principles which it employs. Each company is quite free to prepare its internal management accounting reports in whatever way it sees fit, and the object of the exercise, so far as the management accountant is concerned, is to develop techniques of measuring and reporting which are useful and which are acceptable to the company's management. The management accountant is strongly user-oriented because the user is his boss.

The financial accountant on the other hand, tends to be

less user-oriented because the users are a nebulous group of 'outsiders' and the reports which the financial accountant is responsible for preparing are reports *by* management *to* the outsiders. The financial accountant within any particular company is intimately involved with the problem of presenting management's case to the shareholders, and he is frequently an active agent in the extension of the boundaries of generally accepted financial accounting practice.

This is one example of the very real conflict which exists between the practices and principles and objectives of management accounting and those of financial accounting. But before we explore the reasons why management accountants can and should co-operate in improving the quality of financial accounting principles, it will be as well if we first of all examine some other conflicts between the two branches of the profession.

One obvious problem is the way in which the financial accounting presentation of the effects of a decision can be an important and sometimes overriding factor in the decision-making process. What may seem to be a sound decision to the management accountant may look quite the opposite to the financial accountant who is preoccupied with the problem of matching his unexpired costs. A good example is in the field of replacement decision-making where the 'losses on disposal' of the assets to be replaced often make it difficult for the financial accountant to accept the merits of a proposed replacement.

The attitudes of company managements towards the presentation of information and reports to outsiders vary widely; what seems a 'true and fair view' to one management group may seem to be a preposterous distortion of the truth to another. In any event, the management is concerned with its own survival and prosperity, and with that of the company, and is not primarily concerned with the maintenance of accounting standards.

Room for manœuvre

A multiplicity of financial accounting rules and principles gives management the maximum room for manœuvre in presenting their case to their shareholders and to the public. This 'open minded' approach coupled with the fact that there are thousands of different corporate personalities represented throughout British industry and commerce, makes it unlikely that accountants in industry and commerce will be as keen to secure greater uniformity in accounting practice as are their colleagues in private practice. If we are not very careful in Britain we are likely to find that these differences of approach will loom larger in the future as the Accounting Standards Steering Committee (backed as it is by the City and the government) makes progress in its task of narrowing the areas of difference in accounting practice. The problem has arisen acutely in the United States where bodies representing management, and management accountants, have announced their intention to issue pronouncements on accounting principles in competition, and possibly in conflict, with those of the American Institute of Certified Public Accountants. It will be a tragedy if a similar situation develops in the UK, and we must do all we can to prevent this from happening.

Having said all of this it is now time to consider the question of why management accountants need to concern themselves with the problem of rationalizing financial accounting principles.

It might fairly be argued that the financial accounting bodies in this country have failed to grasp the opportunity for greater mutual co-operation, since they omitted to include representatives of The Institute of Cost and Works Accountants on the 15-man Accounting Standards Steering Committee. The Celtic fringe of chartered accountants occupies more than 25 per cent of the seats on this committee, and the rest are held by the English Institute. A better balance in my opinion would be nine English CAs, five industrial accountants from the ICWA or the ACCA, and one Celt. If the chartered accountants then really felt very strongly about something they could muster a two-thirds majority, whilst at the same time industrial accountants would have a more reasonable participation in the process of development of accounting principles.[1]

A great part of the problem, in the field of financial accounting principles, has arisen from the relatively undisciplined right of management, and the accountant in industry, to dream up new 'principles' as they think they are necessary. There are many accountants in industry, and a few in practice, who believe that management should have a licence to present their accounts however they see fit. If the overall situation is to be improved this process will have to be curbed, and I would hope that if the ICWA is offered participation in the Accounting Standards Steering Committee it would expect its members to regard the recommendations of the Committee as binding.

I believe it is very much in the interests of the accounting profession as a whole for the ICWA and the English Institute to move closer together in co-operating on the improvement of accounting principles and standards. Despite the failure of integration, we are all concerned in upholding the good reputation of the accounting profession within this country. We cannot expect to do this if the two major bodies in the two main areas of accounting are not seen to be co-operating closely on a problem as fundamental as the improvement of the quality of financial reports to shareholders and the public.

Nor is it only the reputation of our profession which may be at stake. I believe, taking the larger view, that confidence in the securities markets is also an issue, and I am quite sure that leading people in the City are well aware that better financial reporting is an important ingredient of such confidence.

It is only by co-operation between the two branches of the profession that we can ensure that accountants move together in resolving their problems and speak with one voice about the solutions. The alternative, which could be quite disastrous, is the prospect of continual conflict between management accountants and financial accountants over each new issue as it is defined and as solutions are attempted.

In the second place I believe that management accountants can bring a great deal of behavioural know-how to the problem of improving accounting principles.

Closer links

Once again, there are signs that your Institute is aware of the need to develop closer links with the universities, and to promote more research in the subject. I think you should not delay in this aspect of your development, if you want to make sure that management accountants earn and retain as high a reputation in the community as they deserve. And, may I repeat, having earned this reputation I believe that you should use it in co-operation with the chartered accountants and not in competition with them.

[1] See also 'Two Points of View', *The Accountant*, March 25th.

Inflation Must be Beaten

President's Comments at Birmingham Dinner

THE experiences of 1970 must have convinced everyone that inflation had to be mastered, said Mr C. Croxton-Smith, M.A., LL.B., F.C.A., President of The Institute of Chartered Accountants in England and Wales, at the annual dinner of the Birmingham and West Midlands Society of Chartered Accountants held in Birmingham last Friday.

Responding to the toast of the Institute, Mr Croxton-Smith said that the present Government had made it plain that the main plank of its economic policy was that business enterprises – nationalized and others – should stand on their own feet. They would either succeed or fail.

Profit, which had become almost an unmentionable word, suddenly signified a bare necessity of commercial existence. The change had been a little abrupt, but there was a desperate and urgent need for a change in attitude.

The TUC was to be congratulated on its refusal of official approval for further strike action against the Industrial Relations Bill. Every strike added to the unemployment figures and to lack of confidence, and there was need of all the help that could be given by advisory bodies such as the chambers of commerce and by members of the accountancy profession, whether in industry or in professional practice.

Capital investment

Industry had urgent need of more capital investment in plant and machinery and in research and development. But profit that was earned would not be ploughed back, and new money would not be forthcoming from investors, without some confidence that there could be a period of stability in industrial relations.

The recent visit to Britain by Mr Henry Ford and happenings at a building society in Derby had reinforced what they should already know. The techniques of budgeting and forecasting, particularly with regard to the requirements of cash flow, needed tightening, as other recent events had shown, and that was the job of the industrial accountant, and of those in practice for the many smaller clients. The year 1970 must have convinced everybody that inflation had got to be mastered, and had convinced accountants that they must account for it.

Taxation structure

On taxation, Mr Croxton-Smith said he was interested to see that the Select Committee on Procedure had published a report suggesting the establishment of a committee to examine proposals for new forms of taxation and changes in the structure of taxation in advance of the Budget.

It suggested that the Select Committee be enlarged to permit the appointment of a sub-committee on taxation and finance. The Council of the Institute had been, with other interested bodies, pressing for this sort of thing for some time.

While it was easy to understand – and to sympathize with – the reluctance of the Treasury to permit anyone outside Parliament and the Treasury to have knowledge of tax changes in advance, there could be no doubt that the chaos which had resulted from the complicated and, at times, unintelligible tax legislation of the past six years had caused a loss of confidence between the taxpayer and the Revenue.

It was piling up arrears of work in the Revenue itself and in professional offices and before the General Commissioners. Mr Croxton-Smith thought it not unreasonable to hope that, if those who were concerned with the practical day-to-day application of the tax laws could be represented on a sub-committee in addition to the Revenue, an improvement might be made in future Finance Acts.

The toast of the Institute was proposed by Mr Robert C. Booth, C.B.E., T.D., LL.B., Director of the Birmingham Chamber of Commerce and Industry, who referred to the problems faced by accountants in reporting on profit forecasts, particularly in take-over situations.

Mergers, he said, had been particularly in fashion over the past decade, with no fewer than 7,500 amalgamations, running at about two to three times the number in the previous ten years.

The trend towards the formation of large corporations through take-overs had clearly not yet run its course. Nevertheless, many experts were now questioning whether bigness in itself necessarily produced increasing profitability for shareholders of companies.

Economies of scale

The prospect of British entry into Europe nevertheless reinforced the need to have regard to economies of scale, and it seemed likely there would be a shift towards amalgamation between firms in this country and their Continental equivalents. This would seem to emphasize the need for adoption of common accounting standards in Britain and the Common Market countries.

As one would expect, it was a matter on which the Institute had already taken the initiative, and those who were engaged in commerce and industry would be interested to learn what emerged from the debate within the profession on this issue, and the progress that could be made through international discussion.

Mr K. J. Milligan, M.A., F.C.A., President of the Birmingham and West Midlands Society, proposed the toast of the City of Birmingham, and the Lord Mayor, Alderman Stanley Bleyer, responded.

The toast of the guests was also proposed by Mr Milligan, and the response was made by Dr Robert B. Hunter, M.B.E., LL.D., F.R.C.P., F.R.S. (Ed.), Vice-Chancellor of the University of Birmingham.

STUDENT ROUNDABOUT

Training Plan Explained at Leicester Students' Dinner

A PLAN for restructuring accountancy training was explained at the annual dinner of the Leicestershire and Northamptonshire Chartered Accountant Students' Society held at the Grand Hotel, Leicester, on Monday of last week.

Bill Dorman, an executive member of ACASS and a committee member of the Society, who was proposing the toast of the guests, said he believed that the profession was coming to a turning point and there must be structuring now for the decades ahead. He proposed a two-level system of entry to the profession.

Four functions

The first tier would cover four functions: assessing information needs of management; controlling and supervising management information systems; interpreting and presenting data for management, and making decisions for management based on that data.

The second tier would have five functions: preparing data for primary records; helping to design management information systems; preparing statutory books, and controlling routine book-keeping systems.

'We are going to need a much greater academic base of education', he said. The broader base would equip the accountant to cope with his more flexible role.

University course

The first level of entry would start with a three-year university course. A year in an office or industry would then be followed by a further two years at university studying the more technical aspects of accountancy. There would then be a final year in an office or industry before qualification. The second method of entry would be at GCE level, and would be based on a four–five-year spell in the office or industry, supplemented by block release courses.

ACASS and its Executive, Bill Dorman said, had this year set itself three main targets. 'It aims to achieve some measure of success about transferability of articles, student membership of the Institute and the system of education.'

Closer links

There would be closer links between the students' societies and the ACASS executive. At student societies' AGMs a member will be appointed to the ACASS Council to attend the two conferences which will be held each year in place of only the one as in the past. It would be the duty of the Council member to channel grievances through to the executive.

Bill Dorman went on to say that two types of articles were proposed: those between the Institute and student and those between student and firm. The articles would not have such a binding effect on transfers between firms although they would 'still keep the responsibility on the articled clerk to do the best he can', he added.

Mr C. T. Chater, F.C.A., Vice-President of the Society, took the chair due to the indisposition of Mr J. A. Davison, F.C.A., the President.

ACASS SYMBOL

THE new ACASS symbol approved by delegates at the national conference of ACASS last month and illustrated under 'Roundabout' on March 11th, owes its origin to the inspiration of Richard Cooper, the present secretary of the Northern CASS.

In 1969 he and Tony Robinson, B.A., A.C.A. – at that time secretary of the Society and now chairman of the conditions of employment board of ACASS – decided that the Northern CASS needed a symbol and designed one depicting the five Tyne bridges. Accepted by the committee, it now appears on all the Society's stationery and ties – the Northern Society was in fact the first to have its own tie.

Following this success, Richard Cooper proposed that the Society should design and present as a gift a symbol for ACASS for use on its

Pictured at the annual dinner of the Leicestershire and Northamptonshire CASS on Monday of last week. *Left to right:* Ashwin J. Patel, secretary of the Society, Mr C. T. Chater, F.C.A., Society's vice-president, Mrs M. J. Cufflin, Councillor M. J. Cufflin, and Mr T. A. G. Jackson, F.I.B.

notepaper. The committee accepted his suggestion and a local designer was commissioned to undertake the task.

Produced in time for the 1970 October ACASS conference, it failed to be adopted in its original form. However, by the simple expedient of rotating the symbol 90 degrees, its appearance and significance were greatly improved and, as is known, it was unanimously accepted at last month's conference. It is good to record that the persuasiveness of Richard Cooper and his committee has resulted in a symbolic 'identity' for ACASS.

IMTA SCOTTISH MEETINGS

MEMBERS of the IMTA Scottish Students' Society are likely to find of particular interest a talk to be given by Professor D. Flint, T.D., M.A., B.L., C.A., on 'The external audit – a new concept' at the City Chambers, Glasgow, on Thursday next, April 8th, commencing at 2.30 p.m.

At a subsequent meeting on April 24th at the City Chambers, Edinburgh, also at 2.30 p.m., some interesting facts on 'The Reform of Local Government in Scotland' will be given by Mr C. Stuart Page, B.COM., A.I.M.T.A., senior lecturer at Strathclyde University. This is to be repeated at the Town House, Aberdeen, at 2.30 p.m. on May 13th.

COMPANY ACCOUNTS AT OXFORD

A HALF-DAY course on company accounts conducted by Mr A. K. Moir, F.C.A., of Foulks Lynch, is to be held for members of the Oxford CASS on April 16th at the Eastgate Hotel, High Street, Oxford, commencing at 2 a.m. The committee expresses the hope that principals in the area will give every encouragement for their articled clerks to attend.

ICWA COURSE AT SOUTHAMPTON

THE Hampshire Branch of The Institute of Cost and Works Accountants is organizing on May 9th, in conjunction with the Southampton College of Technology, a one-day intensive pre-examination course covering all five parts of the ICWA's examinations.

Starting at 9 a.m. the course will be divided into four equal sessions of one and a half hours each, with a mid-morning break and one and a half hours for lunch for which the students are asked to make their own arrangements.

The fee is £1·50 and applications to attend should be sent to Mr T. O'Connor, F.C.W.A., 24B Methuen Road, Bournemouth BH8 8ND.

Cheques should be made payable to ICWA Hampshire Branch.

LONDON'S SUMMER BALL

THE MIXTURES, top of the charts until recently with their Pushbike song; Edison Lighthouse, who have also been top of the charts, together with Phillip Toad Show, Neil Taylor Trio, and Tony Charles' Trinidad Steel Band will be the groups providing music at this year's Summer Ball of the London CASS due to be held at the Hurlingham Club on May 21st from 8.30 p.m. until 3 a.m.

All chartered accountant students, whether members of the Society or not, are invited to attend. Double tickets, price £9 including meal, or without meal £3·50. Wine and beer 'will be provided'. Applications for tickets should be made immediately, to the Society's office, 43 London Wall, London EC2M 5TB, or through members of the committee.

PRESIDENT VISITS BIRMINGHAM

THE annual visit by the President of the Institute to the Birmingham Chartered Accountant Students' Society took place last Friday. About 80 members of the Society were at Fountain Court to have tea followed by a short address from Mr C. Croxton-Smith, M.A., LL.B., F.C.A.

Introduced by the President of the Student's Society, Mr Graham Withnall, F.C.A., Mr Croxton-Smith talked about the changes which were being experienced by the accountancy profession and compared them with those in industry, trade and local government. Small units, he said, were combining to become large units and the concept of the international organization was being developed.

Speaking from personal experience, he described the major changes taking place in small accountancy practices. The position was arising where small firms were no longer recruiting new articled clerks for economic reasons and because they were unable to give the necessary specialist training, he said. On the subject of training, the President welcomed the current movement away from the impersonal correspondence course to methods of teaching involving personal participation and stressed the need for the constant improvement of standards of education and training. 'An accountant', he stated, 'increasingly needs to be more highly qualified, hence the necessity for raising the minimum entry standard from "O" level to "A" level'. Mr Croxton-Smith said that he would welcome the day when all new chartered accountants had degree education at some stage of their training.

Mr Withnall then invited members present to put questions to the President, and in the ensuing discussion interest was mainly centred around standards in the accountancy profession, education and examinations, thus developing the theme which Mr Croxton-Smith had introduced in his opening remarks.

On the subject of education, the President said he regretted that too few members of the Institute had been encouraged to teach. Training could be no better than its teachers and standards would inevitably be raised if members both in practice and industry were to devote part of their time to teaching.

Merely coincidence

When questioned about examination results, the President said that the usual pass rate of about 50 per cent was little more than coincidence. Standards were undeniably getting stiffer and thought was in fact being given to the possibility of piecemeal re-sits in the case of examination failures, instead of the present system of having to re-sit all subjects.

Mr Croxton-Smith agreed with a member who expressed concern about standards within the profession and said that it was a challenging time for accountants. Whilst it was up to every man to stand firm on professional matters as far as ethics were concerned, there were no clear guide-lines on standards. Because of criticism in recent times, the President stressed the importance of laying down such guide-lines and illustrated the mockery that had been made of the profession from time to time because of differing accountancy codes.

Notes and Notices

PROFESSIONAL NOTICES

COOPER BROTHERS & CO and COOPERS & LYBRAND announce the retirement on March 31st, 1971, of Mr SIDNEY JOHN PEARS, F.C.A., after 51 years of service with the firm. He joined as an articled clerk in 1919, and was admitted to partnership in 1926. He served on the Council of The Institute of Chartered Accountants in England and Wales from 1946 to 1967 and was President for the year 1960–61.

COOPER BROTHERS & CO and COOPERS & LYBRAND announce the retirement on March 31st, 1971, of Mr JULIUS BERNARD MARTIN of Liverpool; Mr ARTHUR CHARLES CROSFIELD ODDIE of Bristol; Mr ROY HARDMAN BENBOW of Northampton, Mr ERIC CHARLES ARCHER of Coventry and Mr PETER SHARP of London.

COOPER BROTHERS & CO and COOPERS & LYBRAND announce that they have admitted to partnership Mr JOHN DAVID ANDREWES, Mr DAVID COLIN GOLDSMITH, Mr JOHN PETER THRELFALL and Mr PETER MACLEOD BENSON in London; Mr DAVID MAXWELL and Mr MARTIN RICHARD RATLEDGE in Birmingham; Mr ALAN GODFREY YOUNG in Sheffield; Mr ROBIN ALEXANDER FAIRBAIRN WIGHT in Leeds; and Mr NICHOLAS JOHN BLISS in Belfast. Mr GEOFFREY FOSTER and Mr ERNEST PERCIVAL MORRIS have been appointed directors of COOPER BROTHERS & CO (unlimited) and COOPERS & LYBRAND (unlimited) in London.

COOPER BROTHERS & CO, COOPERS & LYBRAND and STARKIE & NAYLOR announce that with effect from April 1st, 1971, they have amalgamated their practices in Leeds. The resident partners will be Mr R. L. EMMITT, Mr R. A. F. WIGHT and Mr N. KIRKMAN.

BLAKEMORE ELGAR & CO, Chartered Accountants, of 124 Chancery Lane, London WC2, announce with regret the sudden death on March 21st of Mr F. E. CORBIN, F.C.A., one of their two senior partners. The practice will be continued by the remaining partners.

FARROW, BERSEY, GAIN, VINCENT & CO, Chartered Accountants, and MIDDLETONS, Chartered Accountants, announce that they have agreed to merge their practices on April 9th, 1971. For the time being the practice will continue to operate from the present addresses, namely 53, New Broad Street, London EC2M 1LN, and 73 Basinghall Street, London EC2V 5AN and from their offices at Richmond, Haywards Heath and Glasgow. The partners of the new firm, to be called FARROW, MIDDLETON & CO, will be all the partners of the two present firms.

GRIFFIN, STONE, MOSCROP & CO, Chartered Accountants, of 21 Manchester Square, London W1, announce the admission to partnership on April 1st, 1971, of Mr W. Peter Smails, F.C.A., and Mr DAVID C. SMITH, A.C.A.

HEREWARD, SCOTT, DAVIES & CO, Chartered Accountants, announce that Mr ALAN MORRIS, A.C.A., has been admitted to partnership as from April 1st, 1971.

KERR, MACLEOD & MACFARLAN, Chartered Accountants, and DAVID STRATHIE & CO, Chartered Accountants, announce that they have amalgamated their practices with effect from February 1st, 1971. The combined practices will be carried on from 100 Wellington Street, Glasgow C2, under the name of KERR, MACLEOD & CO and the partners will be J. A. S. ARMSTRONG, C.A., R. S. HUNTER, C.A., J. A. STEWART, C.A., J. H. STRATHIE, C.A., H. M. BEGG, C.A., D. BRUCE, C.A., J. M. HARTER, C.A., J. F. DE W. DUVOISIN, C.A., and J. G. HUNTER, C.A. Mr ALEXANDER MCKELLAR, C.A., the senior partner of DAVID STRATHIE & CO is retiring from general practice but will maintain a connection with the new firm in the capacity of consultant.

MCLINTOCK, MANN & WHINNEY MURRAY, of Granby House, 95 Southwark Street, London SE1, announce that Mr N. F. R. CARRATU, A.C.A., M.I.M.C., and Mr J. R. CUTHBERTSON, B.A., F.C.A., A.I.M.C., were admitted into partnership on April 1st, 1971. Mr J. W. GRIFFITHS, B.SC., ENG.A.C.G.I., A.F.R.AE.S., C.ENG., F.R.STAT.SOC., M.I.M.C., is leaving the partnership with effect from April 1st, 1971, as he has been invited to join ICFC from April 1st, 1971, with the responsibility to set up a company which will have the special task of providing consultancy services to smaller companies.

MORLEY & SCOTT announce that they have merged their Brighton practice with the firm of CHENNELL, GILBODY & CO, of Hove and Shoreham. Mr G. H. GILBODY, F.A.C.C.A., is not participating in the merger but the remaining partners of both firms will continue under the style of MORLEY, SCOTT & CHENNELL at Hamilton House, Dyke Road, Hove and St Mary's House, St Mary's Road, Shoreham. The firm of MORLEY & SCOTT will continue practising from their offices in London, Winchester, Staines, Eton and Alton as heretofore.

STAFFORD RUDKIN & CO, Chartered Accountants, announce that Mr ANDREW JOHN POLLOCK, A.C.A., has been admitted to partnership with effect from March 19th, 1971.

A. G. SAYERS, SEATON & BUTTERWORTH, Chartered Accountants, of 62 Brook Street, London W1, announce the retirement of their senior partner, Mr R. J. BUTTERWORTH, F.C.A., on March 31st, 1971. Mr BUTTERWORTH has been a partner for almost 50 years since 1921, and will in future be available in a consultative capacity.

SMITH WEIR & TURNER, Chartered Accountants, announce that as from April 1st, 1971, their practice will be continued in the same name, in association with DEARDEN, HARPER, MILLER & CO, Chartered Accountants, Manchester and London. Messrs H. LAWTON, F.C.A., and J. W. STEWART, B.A.(COM.), A.C.A., partners in DEARDEN, HARPER, MILLER & CO, will become partners in SMITH, WEIR & TURNER. The new address is Croxley House, 14 Lloyd Street, Albert Square, Manchester M2 5NB. Telephone 061–834 8561.

SUNDERLAND, MOUNTSTEPHEN & CO, Chartered Accountants, announce that, with effect from January 1st, 1971, Mr DAVID G. SUNDERLAND, A.C.A., has been admitted a partner in the practice.

TEMPLE, GOTHARD & CO, Chartered Accountants, of 7/8 Norfolk Street, Strand, London WC2, announce that on April 7th, 1971, their senior partner, Mr W. G. ADAMS, F.C.A., will retire for health reasons. Mr Adams became associated with the firm in 1928, and will remain available in a consultative capacity.

THOMSON MCLINTOCK & CO, Chartered Accountants, of 33 King William Street, London EC4, announce that Miss MARY A. YALE, A.C.A., was admitted into partnership on April 1st, 1971.

THOMSON MCLINTOCK & CO, Chartered Accountants, of Royal Exchange House, City Square, Leeds, announce that Mr MARMADUKE BELL, F.C.A., retired from the partnership on March 31st, 1971.

APPOINTMENTS

Mr D. R. Elder, M.C., C.A., has been appointed a managing director of The Ocean Steam Ship Co, with effect from March 17th. He will have particular interest in the company's non-marine enterprises.

Mr E. E. Hallam, F.C.A., has been appointed to the boards of the Reliance Mutual Insurance Society, the Reliance Fire and Accident Insurance Corporation and The British Life Office.

Mr D. R. Elder.

Mr E. E. Hallam.

Mr B. V. Haines, F.C.W.A., administration manager and financial controller of Lake & Elliott Founders and Engineers, has become a director of the company.

Mr Peter R. Hosp, F.C.A., has been appointed to the board of James Buchanan & Co.

Mr J. E. Lazarus, F.C.W.A., A.A.C.C.A., J.DIP.M.A., has been appointed financial controller and secretary of all companies within the Lind-Air and Intel groups of companies.

Mr R. L. M. Mackie, F.A.C.C.A., the managing director of Boulton & Paul (Joinery), has become a director of the holding company, Boulton & Paul.

Mr Robert H. Carter, C.A., chief accountant of PD Fuels, part of the Powell Duffryn Group, has been appointed a director of the company.

Mr R. H. Carter.

Mr A. C. E. Mossford.

Mr A. C. E. Mossford, B.A., A.C.A., secretary and chief accountant of Powell Duffryn Engineering, has been appointed a director of the company.

Mr Rodney Howgate, F.C.A., has been appointed a consultant to the Manchester office of Reed Executive (Selection).

Mr C. I. McBride, A.C.A., personal assistant to the chairman of the Moores group of companies, has been appointed to the board of the parent company, Moores Stores.

Mr Colin Shannon, C.A., M.B.A., has been appointed chief accountant of Ritchie, Osborne & Leggat and John Howatson & Son, two subsidiaries of the Scotcros group of companies.

LONG SERVICE

The Birmingham partners of Chalmers, Impey & Co gave a luncheon recently to mark the retirement of Mr Harold Adkins on March 31st, after 56 years' loyal service to the firm.

Mr Adkins, who recently celebrated his 70th birthday, entered the service of Impey, Cudworth & Co (whose practice was amalgamated with that of Chalmers, Wade & Co in 1961 to form the present firm) as an office boy, when his wages were *2s 6d* weekly.

At the time of his retirement he was a senior audit clerk and he has, as may be expected, some lively recollections of the many changes which have occurred during his professional lifetime.

VISITING PROFESSORSHIP IN AMERICA

Mr Douglas Garbutt, A.C.W.A., A.C.I.S., DIP.ED., Senior Lecturer in Management Accounting, Cranfield School of Management, recently left the United Kingdom to take up the post of visiting Professor in the Accounting Department of Georgia State University in Atlanta for the spring quarter.

The invitation arose out of Mr Garbutt's previous visit to the USA when he was Visiting Professor at the University of Southern Illinois in 1968–69, and it was during this time that he was elected a member of the American Accounting Association.

RETIREMENT OF MR S. JOHN PEARS, F.C.A.

As announced under 'Professional Notices' in this issue, Mr Sidney John Pears, F.C.A., senior partner in Cooper Brothers & Co and Coopers & Lybrand, retired on March 31st after fifty-one years' service with the

firm which he first joined as an articled clerk in 1919 and in which be became a partner in 1926.

Elected to the Council of The Institute of Chartered Accountants in England and Wales in 1946, Mr Pears served on many of its committees either as a member or chairman, and in 1960–61 was President of the Institute. His total service on the Council lasted for twenty-one years, until his retirement in 1967.

During the Second World War he

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held the posts of Director of Contracts, Ministry of Supply, from 1941–42, and Principal Controller of Costs at the Ministry from 1942–45. Since the war Mr Pears has been a member of numerous Government committees and was Vice-Chairman of the advisory committee on ROF accounting from 1946–50. He has also served as a director of the National Film Finance Corporation, a member of the Inland Revenue Board of Referees and as accountant adviser to the United Kingdom Atomic Energy Authority.

The North West Society of Chartered Accountants held their annual dinner and dance on March 19th at the Savoy Hotel, Blackpool. Pictured (*from left*) are: Mr A. J. Westhall, F.C.A., Vice-President, and Mrs Westhall, Mr W. O. Jolliffe, F.C.A., F.I.M.T.A., President, Mrs H. P. Bee and Mr H. P. Bee, M.A., A.C.A., Honorary Secretary, and Mr D. H. Preston, F.C.A., Honorary Treasurer.

CHARTERED ACCOUNTANTS' DRIVE FOR NEW MEMBERS

The Sheffield and District Society of Chartered Accountants recently launched a two-stage campaign to recruit student members to the profession.

On Monday of this week a careers course at Sheffield University was attended by pupils studying for 'A' level examinations and interested in a career in accountancy after leaving school or university. The course included talks by Mr K. H. Glossop, F.C.A., President of the Sheffield Society, and other members of the Society holding senior positions in the University, the Polytechnic, industry and public practice. Mr Glossop referred to the limitless opportunities the profession affords for young people today, leading to worth-while careers in public practice, in industry or in teaching establishments.

Earlier, head teachers from schools in Sheffield and surrounding areas were entertained by the Society at an informal reception at the Grosvenor House Hotel.

SOUTH-WEST ESSEX CHARTERED ACCOUNTANTS' MEETING

Why persons buy and sell companies, and the factors that must be considered in a 'takeover' will be some of the issues considered at a meeting of the South-West Essex Group of Chartered Accountants to be held on April 6th at Nan's Pantry, 772 Eastern Avenue, Newbury Park, Ilford. Supper will commence at 6.45 p.m. and a bar will be available from 6.15 p.m.

The speaker will be Mr J. N. Harrison, M.A., A.C.A., of Chesham Amalgamations & Investments Ltd, who will also discuss 'going public' and outline merger procedures.

DOUBLE TAXATION: ISRAEL

The protocol to the United Kingdom–Israel Double Taxation Convention has been published as a Schedule to an Order in Council numbered SI 1971 No. 391.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The monthly meetings for Bible reading and prayer to be held at 1 p.m. on Monday next, April 5th, will discuss 'Easter Time' as considered in Philippians, Chapter iii, verses 10 and 11. The City meeting will be at the Church of St Peter-upon-Cornhill, EC3 (entrance in Cornhill, near Gracechurch Street) and will be led by Mr Gordon Cartmell. Coffee and sandwiches will be available (charge 25p) during the meeting.

The parallel meeting in the West End has been arranged for the same time at the Vicarage of Christ Church, 21 Down Street, London W1 (near Green Park Station).

LONDON ACCOUNTANTS' FOOTBALL LEAGUE

Results of matches played by teams in the London Accountants' Football League on March 28th were as follows:

DIVISION ONE			
Hazy Ideas (Arthur Young)	5	Crest (Deloittes)	1
DIVISION TWO			
Pridie (Pridie Brewster)	0	Finnie (Finnie Ross)	2

The League Cup Final between the present holders B. S. Casuals (Baker Sutton) and Hazy Ideas (Arthur Young) takes place on April 18th at the Epping Town Football Ground. The match commences at 11.15.

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Once the information that is needed has been determined, there still remains the problem of obtaining it. This is seen to be a problem of communication, not of making 'communication to' other people, on which attention has hitherto been concentrated, but of getting 'communication from' other people. The book discusses this neglected aspect of communication and draws attention to the need for further study of the subject.

Although the research has been sponsored by The Institute of Office Management, it is dedicated not only to office management but to any business manager who is anxious to change and to enhance the future value of his business. Indeed, the principles which have been evoked are capable of being applied more widely than to commercial and industrial undertakings alone. Wherever costs should be related to benefits produced, we have the essential business situation.

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Fair Play for Shareholders?

MR ANTHONY BARBER's main objection to the present corporation tax structure is 'the substantial discrimination which it entails in favour of retained as opposed to distributed profits'. Thus, the Government's Green Paper (Cmnd 4630) on the reform of corporation tax comes down on the side of the 'two-rate' system, the distributed part of a company's profits being charged on the company at a lower rate than the retained part. The recipient of the distributed profit will pay income tax on it at his own appropriate rate, as at present.

In fact, of course, the corporation tax is the same for all profit at present. When a company pays dividends and other distributions, Schedule F tax is a tax on the recipients. The two-rate structure really means discrimination in favour of distributed profits.

A two-rate system is by no means essential to the Government's stated aims, which could be achieved simply by retaining a single rate of corporation tax and taxing the recipient of dividends (and other distributions out of profits) at a lower rate than the standard income tax rate. If corporation tax eats into a company's equity, there is no logical reason for not giving credit to the shareholders for it, possibly in the form of a favourable income tax rate.

Investors in building societies receive their share interest free of standard rate tax, and simply pay surtax on the grossed-up equivalent. This causes no great political outcry, perhaps because investing in building societies is so widespread. Shareholders, on the other hand, are identified with the rich (perhaps mistakenly, in view of the widespread indirect participation through unit trusts, pension funds and trade unions), and one can imagine the comments which would be made if dividends as such enjoyed a preferential rate on account of the underlying tax. This is strange, in the light of the historical fact that recipients of dividends were credited with the income tax on the grossed-up equivalent until as recently as 1965. The rot set in in 1937 when profits tax was introduced.

Under a two-rate system, the shareholder will receive no credit for the corporation tax paid on the distributed profits, but will have to pay income tax and surtax (or graduated tax) on the full amount of the distribution, notwithstanding that it is still being paid out of an already-taxed fund. Moreover, the complications will be very considerable. The Green Paper candidly recognizes the difficulties of relating distributions to the period in which the profits are earned and taxed. Profit is not normally distributed until

it has been earned. The Green Paper cuts the Gordian knot by suggesting that dividends be attributed to the accounting period in which they are paid. However, this by itself could plainly be unfair where profits were rising or fluctuating, or the profit of a period was unduly depressed by large capital allowances, and some system of carry-forward would be needed.

Complications are foreseen from attempts to disguise dividends, which are not deductible in arriving at taxable profit, as payments of interest, which are. The temptation to use these devices would be much less where there was a system of distribution relief; but it is apparently still the intention to impose anti-avoidance provisions which would treat, for example, fluctuating interest on a loan as being in substance a dividend. It has to be admitted, however, that this must be the case with any tax system which imposes a separate tax on company profits.

In one respect the proposals turn the clock back to 1965. The shortfall provisions aimed against close companies would be confined to surtax payers. This by itself would be no great simplification except where it was plain that none of the shareholders were likely to be chargeable to surtax. In view of the rapid decline in the value of money, there would be comparatively few such cases. However, the Green Paper promises a simplification and a less onerous set of rules when the two-rate system is adopted. The same could be done with the present system, and indeed in this year's Finance Act there will be an immediate improvement in that the exemption for trading companies will go up from £1,500 to £5,000, with marginal relief to £15,000 instead of £9,000.

A curious aspect of the preference for the two-rate system is that the United Kingdom seems to be moving in the opposite direction from several other countries. Germany has a two-rate system, but there has been a general movement in the direction of the system which the United Kingdom has at present; i.e., no credit to the shareholders for corporation tax paid, and a uniform rate of tax. As indicated above, this would not be so bad if there was a lower rate of personal taxation on dividends paid out of profits which have been charged to corporation tax, or a lower rate of corporation tax, such as 20 or 30 per cent.

A third alternative is the French system under which the shareholder is given a tax credit called *avoir fiscal*, computed on the proportion of corporation tax attributable to his share of the distributed profit. The Green Paper dubs this 'the imputation system', and does not recommend it for the sole reason that it regards the firm line of demarcation between corporation tax and personal tax as an advantage. It admits that in reality both systems produce much the same result, i.e., substantial avoidance of the double taxation of distributed profits.

The 'imputation' system is not ruled out by the Green Paper. The system exists in its most developed form in France, where there is a flat 50 per cent rate of corporation tax on the profits. The recipient of a dividend is credited with half of the attributable corporation tax. This *avoir fiscal* is added to the dividend; tax is charged on the dividend in the recipient's hands; but he is allowed to deduct the *avoir fiscal*. Where the deduction produces a minus figure, the recipient of the dividend can claim repayment. At first, the French restricted this deduction to French nationals investing in French enterprises. Now they are moving to a situation where non-French investors in French enterprises are allowed the *avoir* fiscal.

The two-rate system threatens complications in the case of United Kingdom subsidiaries of foreign companies and would have to be taken into account in negotiating new double tax treaties. A branch of a foreign company, trading in England, presents even greater difficulties. The entity which pays out distributions is, of course, not here at all. The branch profits would probably have to be charged in full at the higher rate. The United Kingdom would not be collecting tax on dividends, either by way of deduction or by way of assessment on the recipients.

On the other hand, a high rate of corporation tax would discourage investment from overseas in the United Kingdom. Even in the case of United Kingdom subsidiaries, there could be difficulties. Dividends would go principally to the overseas parent company rather than to an individual and there would be no means of ascertaining how much was passed on to individuals. Moreover, those individuals would not be paying United Kingdom tax, except to the extent of any withholding tax: and a high rate of withholding tax discourages investment.

One unforeseen side effect of the Green Paper is its impact on the ASSC's latest exposure draft ED 4, 'Earnings per Share' (*The Accountant*, March 25th). Under a two-rate system, profits after tax for this purpose will be materially affected by the assumption of either 'full distribution' or 'nil distribution', and it remains to be seen whether the ASSC intends to give early guidance on this aspect or whether it will persist with ED 4 in its present form until the two-rate system is nearer to becoming a fact.

Fortunately, with proper humility, the Government have put forward the Green Paper as a basis for discussion and have allowed ample time for interested parties to make their views known and to reveal the weaknesses of the two-rate system.

CURRENT AFFAIRS

No More Corporate Accountants?

THE Association of Certified and Corporate Accountants is proceeding towards its future by cautious steps. Representatives of its district societies were unable to meet for the discussion of *Future Plans* (reviewed in a leading article in *The Accountant* for January 14th) until March 10th, and the agenda for the annual meeting to be held on April 27th now includes only those resolutions necessary to abbreviate the Association's title (by elimination of the words 'and Corporate') and to reconstitute its Council and committee structure.

If the relevant resolutions are approved by members, the Council will be limited in number to a maximum of thirty, drawn equally from practising and non-practising members and with the London allocation restricted to one-third of the whole.

Mr R. Mitchell, A.A.C.C.A., J.DIP.M.A., has given notice of a further resolution which would require Council membership to be directly proportional to the respective practising and non-practising strengths of the Association. This resolution is opposed by the present Council, who point out that under its terms the number of practising members on the Council would be reduced to six. This, it is claimed, would be a totally inadequate number to meet all the duties at present falling on practising Council members, particularly in connection with the investigation and disciplinary committees. A letter from Mr Mitchell appears in the correspondence columns of this issue.

Founded in 1905 as the London Association of Accountants, the Association is now in its sixty-seventh year, and proposes to mark the occasion by petitioning the Crown for a royal charter of incorporation in place of its present registration under the Companies Acts.

Reward is not Pay

WHEN an employer requires his employees to sit for professional examinations and rewards them for doing so, the rewards do not constitute taxable emoluments. A decision of the General Commissioners to this effect was recently upheld in the High Court (*Ball v. Johnson, The Times*, March 30th).

Mr Johnson joined Barclays Bank in 1959, rising to assistant accountant. His terms of employment required him to sit the examinations of the Institute of Bankers, in order 'the better to qualify himself for his duties in the service of the Bank'. In 1962 he completed Part I of the examination and the bank paid him £30. In 1966 he completed Part II and received £100.

Reviewing the evidence, Plowman, J, said that the bank made grants towards the cost of tuition, as well as paying the rewards. If an employee failed to take the examinations he would not necessarily be dismissed, but the bank would express its displeasure. On the other hand, the bank did not consider itself legally bound to pay the awards.

The General Commissioners found as a fact that the rewards were not paid to Mr Johnson for being an employee of the bank. In sitting for the examination he was not performing his duties as an employee of the bank, and therefore the reason for the payments was not remuneration for his services, but his personal success in passing. The Crown had not attacked that approach as a proper test. The Commissioners had applied the right test, and there was evidence before them on which they were entitled to come to their conclusion.

This seems to be a case of the Inland Revenue being hoist with their own petard. In the past, they have always refused a deduction to employees who expended money on bettering their qualifications, on the ground that they did not do so in the performance of their duties.

Approved Pension Schemes

SOME uncertainties about the Government's attitude towards occupational pensions have been resolved by last week's Budget statement.

One substantial change is to be made in the conditions for approval of employers' pension schemes under the Finance Act 1970. It will be possible to provide, from a scheme so approved, a lump sum benefit on the death in service of an employee of four times the employee's salary, in addition to a payment in respect of his own contributions to the scheme. This represents a substantial concession as, according to the booklet issued by the Inland Revenue last November, such a benefit was not to exceed the greater of twice the employee's salary and the amount of his own contributions with reasonable interest.

Another related change, not so widely publicized, is that with effect from April 6th, 1971, tax will be payable on all refunds of contributions, whether or not the scheme has been approved under the Finance Act 1970, at the rate of 10 per cent of the gross refund instead of at rates related to the standard rate of income tax and being respectively one-half and about one-quarter of that rate.

Doubtless to meet the practical difficulties facing the Inland Revenue as much as employers, existing forms of approval will now remain available until 1980, except for new schemes or schemes which are substantially amended meanwhile. In their case, approval

under the Finance Act 1970 will only be available after April 5th, 1973.

The Chancellor also announced welcome relaxations of the existing restrictions which have applied since 1956 to contracts which those not covered by employers' pension schemes can effect to provide for their retirement, and under which the premiums paid rank as expenses for income tax and surtax purposes. The limit of premiums to 10 per cent of relevant earnings in any year is to be increased to 15 per cent, and the corresponding overriding monetary limit of £750 is being raised to £1,500. Moreover, it will be possible for anyone retiring in the future to receive a part of the benefits under such a contract as a lump sum, conforming broadly to the possibilities open to those who are members of employers' pension schemes.

The Government has yet to announce how it intends to recast the National Insurance scheme. The bulk of the cost of the substantial increases in retirement pensions to be made under the present scheme will be met by means of earnings-related contributions levied on both employers and employees, the flat-rate contributions remaining unchanged. This is described as a move towards the longer-term objective of financing the scheme solely by such contributions, instead of by flat-rate contributions as well.

After the Budget

THE one-point cut in the UK Bank rate to 6 per cent last week was expected; in some respects it was long overdue. What finally forced the authorities' hand was the earlier cut in the German rate which was accompanied by reductions in the Dutch and Italian official rates. At its new level, Bank rate is at its lowest since October 1967.

It was hardly surprising that official spokesmen should have emphasized that the cut was in harmony with the Budget measures. To the extent that the Budget was mildly reflationary, a reduction in borrowing rates is the natural accompaniment. On the other hand, it can be argued that, more than ever, the authorities need to keep a tight control on money supply, and to this extent high interest rates are needed.

For some time past the Bank of England and the Treasury have been in a quandary over monetary policy. With UK interest rates out of line with world levels, it was inevitable that money should come pouring into the country. During March alone, it is estimated that the net inflow of overseas funds totalled some $800 million. Effective sterilization of such massive inflows to prevent expansion of bank credit is not easy.

On the other hand, the authorities have been anxious to keep orderly conditions in the gilt-edged market – not least in view of pending repayments. The need to protect the rate at which the Government may borrow, and at the same time to keep control over the money supply, creates a virtually impossible situation for the monetary authorities. Up till now they have been prepared to accept the inflow of funds as part of the costs of regulating the domestic credit scene. Even so, the failure to keep money supply under effective restraint has done much to reduce the effectiveness of fiscal and budgetary policy during the past twelve months. In fact, it was becoming increasingly clear during recent months that – international interest rate structure apart – there was a strong case for raising interest rates to domestic borrowers.

With an easier budgetary and monetary policy in the domestic economy, it is becoming increasingly urgent for the Government to take some more positive measures over the upward drift of wage settlements. The consequences of the Ford offer in the light of the Chancellor's latest moves are serious.

New Look at National Savings

THE National Savings movement has developed piecemeal over the last 150 years, and the Government believes that it is time for a fresh look at the services which are offered to the small saver. In the course of his Budget speech last week, the Chancellor of the Exchequer announced the appointment of an independent committee 'with wide terms of reference' under the retiring City Treasurer of Manchester, Sir Harry Page, M.A.(ADMIN.), F.I.M.T.A., a Past-President of The Institute of Municipal Treasurers and Accountants, to look into the matter and to make recommendations.

Sir Harry's past experience in Manchester shows him to be a firm believer in the advantages of a diversified investment portfolio; under his guidance, Manchester was the first local authority to put its pension fund into equity investments, and the first to issue negotiable local authority bonds. If he approaches the National Savings movement in the same spirit, some interesting developments in this field may be anticipated.

Inertia Selling

THE days of the twilight stationery suppliers, bogus directory-mongers and peddlers of miscellaneous erotica, it would seem, are numbered. The Unsolicited Goods and Services Bill (*The Accountant*, December 10th, 1970) received an unopposed third reading in the House of Commons on March 19th.

As previously mentioned, the Bill provides for a maximum penalty of £400 for demanding payment in respect of unsolicited goods. For this purpose, any invoice or similar document is to be regarded as 'asserting a right to payment' unless it states with equal prominence that no claim is made to the payment.

The purpose of the Bill is to protect the recipient of

unsolicited goods without at the same time unreasonably hampering the operations of the genuine mail-order firms. It also applies only to goods which are 'sent' to the recipients, and does not attempt to control the activities of door-to-door salesmen.

Waived Loan as Income

WHEN an employee borrows money from his employer on terms that the loan will be waived on completing a further period of service, then he must pay tax on that amount under Schedule E if and when it becomes irrecoverable. This was the decision of Plowman, J, in *Clayton v. Gothorp* (*The Times*, March 31st).

Mrs Gothorp was an assistant health visitor with the West Riding County Council. In September 1965, she agreed with them to take a health visitor's course at Bradford Institute of Technology on terms that the council would lend her the money and that, if she rendered a further 18 months' service to them after completing the course, the loan would be cancelled. The loan was related to her salary and amounted to £637 spread over nine months. She then worked for the council as a health visitor for the agreed 18 months and the loan was duly cancelled in January 1968. The £637 was included in a Schedule E assessment for 1967–68.

Mrs Gothorp's husband appealed to the General Commissioners who held that the arrangement was not a scholarship within section 458 of the Income Tax Act 1952, but also that the £637 was not an emolument of Mrs Gothorp's employment. On appeal by the Inland Revenue, the High Court upheld the finding that there was no scholarship, but allowed the appeal on the other point.

Plowman, J, said that what turned the loan into an absolute payment was Mrs Gothorp's 18 months' service to the council. Thus the right not to repay was a reward for services, and as such became a perquisite of Mrs Gothorp's employment.

THIS IS MY LIFE

Requiescat in Pace

by An Industrious Accountant

OUR bank manager died recently. We'd been good friends for two decades, and I still feel a keen sense of loss in remembering that he's gone.

I owed him much, including my present career, such as it is. People were clannish when I first came here as a stranger, the staff resented the appointment of an outsider critical of the old order, and cold shoulders were frequent. So one evening I sat alone in a bar, tired of snubs, and decided to chuck the thankless job and go back again.

Just then a tall humorous-eyed stranger introduced himself. High time we met, he smiled, considering he'd been handing out fortunes on the strength of my signature! Say 'hello' to Mac and young Dicky here, and join us in a mixed grill.

They proved excellent company and we finished in the small hours. Thereafter he cut me into his golf fourball and his dining club, and always there were introductions leading to new friends and a carefree atmosphere. My depression lifted; the sun shone again.

We didn't see each other all that much, of course. We'd too many other interests. My ham-handed golf couldn't keep pace with his power-driving and spot-on approaches. He didn't take to bridge, though his eyes twinkled unreadably over a two-card poker draw, but there were parties and get-togethers. Our wives became friends, our children exchanged noisy visits, we swopped tips on the Stock Exchange and bets on the rugby internationals.

He was a man to trust. I went to him when my brother was in financial straits, short-lived but potentially nasty. 'You name it, I'll fix it', he reassured me, and our worries were over. I went to him when one of my directors was gunning for me, and his counsel was good. That rough night I lowered too much Scotch, he drove me home (so I'm told) and provided an alibi as well, to keep me out of trouble.

Our local industrialists paid tribute to his keen business acumen and his shrewd judgement, but few people knew of his unfailing, unchronicled kindness to those in need. Banking protocol is traditionally rigid, but many's the point he stretched to help the lame dogs, hard-pressed retailers, house-hungry fiancés or struggling young clerks over their several stiles. His welcome was always warm for young and old, and he never waited for thanks.

Now after a full life, he has rest. In Whittier's lines:

> '. . . Thou hast the best
> That Heaven itself could give thee – rest,
> Rest from all bitter thoughts and things.
> How many a poor one's blessings went
> With thee beneath the low green tent
> Whose curtain never outwards swings!'

His hair was white on the pillow when he died, but his heart was young as ever, as befitted one whom the gods loved.

Scottish Institute's Annual Meeting in Glasgow

THE annual general meeting of members of The Institute of Chartered Accountants of Scotland was held in Glasgow last Friday with the President, Mr George D. H. Dewar, C.A., in the chair.

The accounts of the Institute for the year 1970 and the annual report of the Council for 1970–71 were adopted. (Extracts from the report were published in *The Accountant* last week.)

PRESIDENT'S ADDRESS

In the course of his address, Mr Dewar said:

The year 1970 was one in which our Institute continued to be active in the interests of its members and, indeed, in the interests of the public whom we serve. A full account of the work of our Council and our technical committees is given in the annual report, and today I would like to mention just a few of the many facets of our professional affairs.

Accounting standards

No one who is interested in industry, business, or finance should be unaware of the fact that our Institute is working in association with the English and Irish Institutes in the production of *Statements of Standard Accounting Practice*. In addition to our members on the Accounting Standards Steering Committee, many other members are contributing constructively to this work in various ways.

Our members, whether in industry, commerce, or public practice, are expected to observe these statements. The foreword to the statements issued with the February issue of *The Accountant's Magazine* makes it clear that, because businesses are so varied, accounting standards are not intended to be a comprehensive code of rigid rules and that there may be situations in which they are not applicable. So that when we use the term 'observe' we expect our members either to adopt the standard or, if it is considered inappropriate, to disclose significant departures from the standard, explain them and disclose their financial effects; or, as one financial journalist put it, to disclose, explain, justify, and quantify.

While the standard of financial reporting in the United Kingdom compares very favourably indeed with standards in other countries, there is always room for improvement and I feel that this new development will stimulate further progress. I also believe that it will be warmly welcomed by most of our members and by the public.

It is sometimes said that there is a gulf in understanding between accountants and the public. While no one can expect to become expert in accountancy without going through a rigorous course of education and experience lasting several years, there is no reason why people who are not accountants should not have at least as good a general understanding of our subject as they have of medicine, law, engineering, or any other body of specialized knowledge. I believe also that we, in the accountancy profession, must put away our natural reticence and become much more articulate in dealing with the public. If any group of people, be they engineers, managers, stockbrokers, or financial journalists, wants to know more about subjects within our field, such as financial reporting, taxation, auditing, or management services, I am sure that our Institute would be delighted to find speakers for them from our members.

Education and training

Education and training are subjects with which this 'teaching' Institute is very much concerned. During the year further consideration has been given to the questions of graduate entry, of post-graduate diploma courses at universities for graduates who have not studied accountancy, of day or block release for students, of an appeal for funds for our Educational Trust and, perhaps the most difficult but promising idea, of the establishment of a permanent educational centre for training in finance and accountancy. These matters are all inter-related: none can be dealt with in isolation and all are being actively investigated.

International relations

During the year we have maintained our excellent relations with accountants overseas. Accountancy is the international language of business and we intend to continue to foster our common interests across national boundaries. If Britain goes into Europe, our membership of UEC and our participation in European affairs will become even more important. I hope that a good number of our members will make time to attend the 1971 UEC Study Conference to be held in London in October of this year.

Farther afield, we are looking forward to the 10th International Congress to be held in Sydney, Australia, in October 1972. Two of our members, Mr J. L. Kirkpatrick and Mr C. F. Sleigh, will contribute national papers and we are pleased to note that Mr Dudley Stewart, C.A., representing Canada, who is giving an international paper, is also a member of our Institute. Australia is a long way from Scotland, but again we are hoping for a good attendance in Sydney from our Institute.

Relations with other accountancy bodies in the United Kingdom

The failure of integration has left unsolved the problems which it was designed to solve. The Council has not neglected these problems, but solutions do take time. We believe that, for the good of the public and the accountancy profession as a whole, some effective means must be found whereby the Councils of the various bodies can consult

together to an even greater extent than at present and take common action on matters of importance which affect the whole profession. Discussions on these matters continue.

The role of the accountant

There has been a good deal of discussion recently of financial matters and it is clear that the public and the press are becoming very interested in financial reporting and the role of the accountant.

Some two-thirds of our members are engaged full-time in industry or commerce, occupying positions as chairman, finance director, controller, chief accountant, or in general management. Their main tasks are to take decisions, interpret or prepare management information, budgets and forecasts by which an enterprise is guided; and to prepare the annual report and accounts to be sent to shareholders.

One-third of our members are engaged in the public practice of accountancy. They perform two separate roles and there is a difference in the application of the concepts of 'independence' and 'service' in these two roles.

In the first of the two roles performed by practising accountants, we find auditing and reporting on annual accounts, mainly in terms of the Companies Acts, and the reports in prospectuses and offers for sale. Here the concept of 'independence', that is independence from the directors, management, and staff of the business, is of prime importance. The 'service' is directly to the shareholders or subscribers for shares and indirectly to the public at large. To auditors and reporting accountants, the quality of independence and the reputation which goes with it, are of infinitely more importance than the question of whether they continue to act for any particular client company.

In the second of the two roles performed by practising accountants we find services comprising those such as taxation work, tax planning, financial investigations, valuations, and management services generally. Here the concept of 'service' to the client is of first importance and here the service is given directly to the client company. The practising accountant will, of course, render this service in a professional way and within the ambit of the professional ethics expected of our members, but service to the client company is his objective.

I make these observations because from time to time you come across evidence that the distinction between our 'audit' function and our other 'service' functions is not always understood.

Conclusion

In conclusion, I would like to say how grateful I am to a large number of people. To the Past Presidents; in particular, my immediate predecessors, Mr John A. Stewart and Sir William Slimmings, for their advice, always sound; to the Vice-President, Mr Ian Morrow; to Mr Geoffrey Patterson and the members of the Council for the friendly and constructive atmosphere in which some quite difficult decisions were taken; to the Committees and their Convenors who press on with the Institute's work; to the members for supporting the Council in putting our financial affairs on to a sound basis; and, of course, to Mr John McLaren, the Convenor of the Finance and General Purposes Committee.

And lastly I would like to say how much I respect the way in which our experienced Secretary, Mr E. H. V. McDougall, and our Assistant Secretaries and the staff behind them have coped with the flood of work in the last few years.

Office bearers

Mr Geoffrey C. Patterson (Edinburgh) was declared elected as President, Mr Ian T. Morrow (London) as Vice-President, and Mr Alexander I. Mackenzie as Junior Vice-President for 1971–72. Mr Patterson expressed his thanks: neither Mr Morrow nor Mr Mackenzie could be present at the meeting.

Members of the Council for 1971–72 were elected as follows:

(*a*) *Members practising in Scotland*

Mr A. W. Bryson (Ayr), Mr W. N. K. M. Crawford, V.R.D. (Edinburgh), Mr D. E. Grant, T.D. (Dundee), Mr S. L. Henderson (Aberdeen), Mr J. L. Kirkpatrick (Glasgow), Mr W. S. McFarlane (Glasgow), Mr R. A. McWilliam, B.L. (Inverness), Mr D. L. Nairn (Glasgow), Mr A. B. Richards (Edinburgh), Mr Ronald Williamson (Glasgow), and Mr W. R. Young (Perth).

(*b*) *Members practising in the United Kingdom outside Scotland*

Mr T. N. Ritchie, T.D. (London), and Mr W. N. Hunter Smart (London).

(*c*) *Members not in practice*

Mr N. R. Beattie, J.P. (Aberdeen), Mr Derek Chapman (Knaresborough), Mr A. D. Clark (Dundee), Mr William Ingleby (Glasgow), Mr G. B. Esslemont, C.B.E., J.P., M.A., LL.B., B.COM., F.I.M.T.A. (Dunblane), Mr W. G. P. Fraser, T.D., A.C.W.A. (Glasgow), Mr J. R. McLaren (Edinburgh), and Mr J. K. Steward (Derby).

Handing over of Presidential Badge

Mr Dewar invested Mr Patterson with the Presidential Badge and Mr Patterson then took the chair and expressed his thanks for his election as President.

Vote of thanks to Mr Dewar

Mr Patterson moved a vote of thanks to Mr Dewar for his work as President of the Institute and for his conduct of the meeting. Mr Dewar expressed his thanks.

Resolution on Annual Subscriptions

The following resolution was carried by 931 votes to 689 votes:

That, in place of the scale of annual subscriptions contained in Rule 8 of the Institute's Rules, the following scale be decided by the Institute in General Meeting and come into effect on January 1st, 1972:

For a member:

(*a*) in practice in the United Kingdom:
- (i) until January 1st following the seventh anniversary of his admission to membership £21
- (ii) thereafter £27

(*b*) residing in but not in practice in the United Kingdom:
- (i) until January 1st following the seventh anniversary of his admission to membership £16
- (ii) thereafter £22

(*c*) not residing in the United Kingdom:
- (i) until January 1st following the seventh anniversary of his admission to membership £10
- (ii) thereafter £13

Accounting for Mergers

THE second and third of the Accounting Standards Steering Committee's exposure drafts – ED 2 *Disclosure of Accounting Policies* and ED 3 *Accounting for Acquisitions and Mergers* – were released together last January (*The Accountant*, January 21st). A spokesman for The Institute of Chartered Accountants in England and Wales confirmed last week that both releases had provoked an approximately equal volume of comment, and that the response to the less controversial ED 2 had been predominantly favourable.

Opposition to ED 3 has already been expressed on several grounds, as indicated by Mr P. R. Hinton, B.SC.(ECON.), A.C.A., in *The Accountant* last week, including the arbitrary 3-to-1 size test, the American experience of 'pooling of assets' accounting, and the debatable interpretation of section 56 of the Companies Act 1948. Five and a half thousand copies of ED 3 were issued by the Institute, and about 100 replies have been received to date.

In view of the importance of the subject-matter, the practical burdens of dealing with two drafts at the same time, and the aftermath of the postal strike, there appears little likelihood of a final decision on ED 3 with any element of precipitate haste. Meanwhile, *The Accountant* has invited three well-known commentators to express their respective views.

A Practitioner's View

by ALAN J. HARDCASTLE, F.C.A.,
a partner in Peat, Marwick, Mitchell & Co

FUNDAMENTAL to the approach to merger accounting proposed in the exposure draft is the propriety in law of recording in the books of a holding company shares in another company (received in exchange for an issue of its own shares) at the nominal value of the shares it issues as consideration. There have been many precedents for this treatment, often supported by opinions of eminent counsel, but there have been equally weighty opinions which would interpret section 56 of the Companies Act 1948 quite differently and would require a value to be put upon the consideration received for any shares issued and the difference between that value and their nominal value to be taken to share premium account.

The Jenkins Committee, in 1962, supported the latter interpretation and recommended that section 56 should be amended so as to remove any doubt on the point, but in the absence of such legislation the exposure draft requires the contrary treatment to be adopted in the case of those amalgamations which meet the tests of a merger – although not in the case of those which are to be treated as acquisitions. On the complementary question of the availability for distribution of the preacquisition reserves of 'merged' subsidiaries, the exposure draft also takes the opposite line to Jenkins, who would only permit such distributions in very limited circumstances and only to avoid hardship. The treatment of mergers proposed in the exposure draft would be more cogent if it had the support of a clear exposition of the distinction between mergers and acquisitions.

Definitions

What is a merger, and how it is to be distinguished from an acquisition? A dictionary has it that to merge is 'to cause a thing to lose character or identity in another, especially in a greater one'. If the matter rested there, the limits of relative size set in the exposure draft on those acquisitions of one company by another which must be accounted for as mergers would be acceptable. However, common usage would probably regard a merger as the voluntary joining together of similar or complementary businesses of approximately equal size, with a view to continuing their activities to greater effect – usually by the elimination of duplicated effort or by strengthening their influence on the market in which they operate – and with the former owners of each business retaining virtually the same relative equity interest in the merged whole.

The exposure draft appears to accept this thesis and emphasis is laid on the need for the owners of each business effectively to approve the union and to have a material voice in the affairs of the amalgamated business; but the test of relative size seems oddly in contrast with the underlying concept. Can it be said that if the equity voting rights of one party are as little as one-third of those of another, the concept is followed through to its logical conclusion? In practice such disparity would prima facie result in an acquisition; a submerging of the smaller into the larger.

Early attempts in the USA to define what constituted a merger (or pooling of interests) were based, not only on continuity of equity ownership, management and the substance of the businesses, but also on the relative size of the undertakings involved. One of the earliest

amalgamations in which pooling was accepted by the Securities and Exchange Commission (Celanese-Tubize) involved companies whose relative size was almost exactly in the ratio 3:2. Since then the criterion of the companies' size has been abandoned in the USA, as has also the need for the businesses involved in a merger to be concerned in similar or complementary activities.

Missed opportunity

While statements of standard accounting practice must achieve general acceptability among the preparers and users of financial statements if they are to be effective, it is somewhat disappointing that the introduction to this exposure draft appears to condone the present piecemeal and sometimes illogical approach to an admittedly difficult problem, and seek to formulate rules which will regularize what is now generally done in practice. An opportunity has been missed to pose the question 'What is a merger and how is it to be recognized?' and from there to develop the appropriate accounting rules.

Entrenched practice can hardly be said to present a serious barrier to the more fundamental approach that is called for, since the treatment of amalgamations as mergers is not yet widespread in this country. This is shown by the *Survey of Published Accounts 1969–70*, recently published by the General Educational Trust of The Institute of Chartered Accountants in England and Wales (*The Accountant*, February 4th). During the year covered by the survey there were 16 amalgamations (out of 82 in which the consideration included equity shares) in which the shares issued were recorded at nominal value, and in only six of those cases was the full merger treatment applied.

The application of the tests – four in number – which must be satisfied, if an amalgamation is to be treated as a merger, are not entirely free from doubt and in particular there is no guidance as to the point of time at which those conditions must be met in order for merger accounting to be used. An amalgamation involving two quoted companies could conceivably be a merger when the terms are first announced but not when the documents are subsequently sent to shareholders or when the offer is accepted. Clarification is needed regarding the first test – that the main substance of the merging businesses shall continue – which may not be resolved within one accounting period. The fourth test, in paragraph 7 (*d*) seems oddly out of place in a document which seeks to impose on an objective basis *either* merger accounting *or* acquisition accounting on company amalgamations. Since the directors of the offeror company may not be required by Stock Exchange regulations (and the standard is to apply equally to unquoted companies) nor by law to seek their shareholders' approval of an offer, presumably they have in their hands to determine the accounting treatment by simply not seeking approval.

The requirement that equity voting shares offered to offeree shareholders shall carry rights identical with equity voting shares of their company which are already in issue may prove unduly restrictive. There would seem to be a case, too, for less stringency when accounting for certain multiple amalgamations (which as the rules stand can be part-merger and part-acquisition and thus a source of some confusion to shareholders), provided the transactions are formally linked and consummated within a reasonable period (say a year) and if there is no undue disparity in size of the companies involved.

As to the treatment to be adopted in the accounts of the period in which the merger takes place, paragraph 21 calls for disclosure of the extent to which the results of the group are affected by the profits or losses brought in for the first time – presumably by identifying the constituent elements. In practice, in a true merger situation where rationalization takes place immediately, this information would not be available.

Acquisition problems

While the rules for mergers are likely to give rise to problems in practice, those governing acquisitions (the overwhelming majority of cases) are far from clear in several important respects. It is understandable that the 'fair value' of shares or 'present value' of loan stock issued as consideration cannot be defined so as to cover every set of circumstances (auditors will not find it strange or difficult to have to cope with this 'judgement' area in accounts) but there seems to be no reason why paragraph 12, which deals with the first post-acquisition accounts of the holding company, should not require information to be given regarding the nature and basis of valuation of the consideration which passes for any material acquisition.

It is paragraph 10, however, that leaves too many unanswered questions. At the outset it is accepted that it may be permissible, for the purpose of attributing the subsidiary's income to the holding company's shareholders, to take as the effective date of an acquisition a date earlier than that on which the consideration passes. If the consideration is payable on deferred terms, this must be right in general principle; but in the absence of an agreement, say in a contested bid situation, how far back is it permissible to go and which of the alternatives is to be taken? One alternative offered is the 'date as from which the income of the subsidiary accrued to the holding company' but surely that is the very date which this section of the statement should seek to define.

Back-dating of acquisitions is, albeit obliquely in a sub-paragraph of a schedule (Schedule 2, 15 (5)), recognized by the Companies Act 1967. The governing principle, as enunciated by the Jenkins Committee, is that no part of the profit of a subsidiary should be regarded as distributable by the holding company, if value has been given as part of the consideration passing on acquisition. It is that principle which it is hoped will be given substance in the form of clear

rules before the exposure draft becomes binding.

If definitive standards are to have the desired effect of narrowing the areas of difference and variety in accounting practice, then the rules need to be made as free from uncertainty as possible. For those responsible for the preparation of accounts, no less than for the auditor, this need is emphasized by the recent statement regarding the possible qualification of auditors' reports, if there are significant departures from accounting standards.

A Company Director's View

by H. NORRIS, F.C.A.,
a director of George Wimpey & Co Ltd

WHILST the Institute's third exposure draft, 'Accounting for Acquisitions and Mergers', deals largely with a subject which many of us go through the whole of our lives without encountering, it is an important matter deserving of consideration. The significance of the draft is entirely in distinguishing the treatment of mergers so that the definition of these is vital.

As for acquisitions, e.g., where a large public company acquires the shares of a much smaller company by a share exchange, the draft endorses the usual practice of re-stating the subsidiary's assets, at least on consolidation, by reference to the value of the shares issued as consideration, treating the undistributed profits of the new subsidiary as entirely pre-acquisition and therefore frozen. This is familiar ground. But, on a 'merger' of companies less divergent in size, it is stated that this should not be done. The assets should be aggregated at the original book values and the undistributed profits should be treated as available *in toto* for distribution on the enlarged share capital. The acquiring company should record the shares now held in the other company at the nominal value of the shares issued, not at the market value.

When is a merger?

There are two main points for discussion. Firstly, is there really a difference in principle in 'merging' as distinct from acquiring; does a difference in degree produce a completely different situation requiring fundamentally different accounting treatment? Secondly, if there is a practical difference, does the law permit this accounting differentiation? I am not convinced by the draft on either point.

Taking first the definition of a merger (and the draft regards the accounting treatment as a mandatory consequence), the conditions required are:

(1) The substance of business of the constituent companies continues.

(2) The larger company is no more than three times the size of the smaller (measured by the voting power of the respective shareholders in the merged operation).

(3) The offer to the smaller was, as to not less than 90 per cent in value, in shares with similar voting rights, and was accepted as to 90 per cent or more (and was approved by 90 per cent of the members of the offeror company).

Let us compare these characteristics with those of an 'acquisition' through a share exchange of a small company by a giant. In such an 'acquisition' the substance of the business may well continue undisturbed; it frequently does. Dealing with the last condition, the offer will not generally have been submitted for approval to the members of the giant, unless as an incidental to some necessary increase of authorized share capital. The three times voting rights condition will not be satisfied, although the other voting rights situation would be.

Debatable criteria

The distinction made is largely one of relative size. But can this really be regarded as crucial? When Jaguar 'merged' (it was so designated) with British Motor Corporation in 1966, the former was relatively small. BMC and Leyland merged in 1968, and were very close in total value. In both cases, the undistributed profits of the constituent companies were preserved in the enlarged entity. (The second merger was achieved through a newly-formed holding company which sprang into life with a full-sized consolidated profit and loss balance.) Why should the size distinction now be regarded as of importance? Even stranger, why should the consequential respective voting rights be regarded as vital? They normally have little relevance to the day-to-day conduct of affairs.

The draft terminates rather mysteriously with the bald comment that, 'There is legal opinion to support the propriety in law of the practice of recording in the books of the holding company, at the nominal value of the shares issued, shares received by the holding company in exchange for shares issued'. Implicit in this is approval for preserving the reserves of the other company in the holding company's consolidated accounts, and of regarding all dividends from the other company, even if in excess of post-acquisition profits, as available for distribution by the holding company. But counsel for BMC also opined that this treatment was legitimate for the Jaguar reserves, though that was a long way from a merger of near equals.

It has obviously seemed illogical in the past to those concerned with 'mergers' (however definable) and now to the Institute drafters that profits should become frozen just because of a share exchange. But I suggest

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that there is a limit to the possibility of bending the law on not paying dividends out of capital. There might be a case for changing the law (though I doubt it), but within the framework of the joint stock company structure I feel that the propriety of paying dividends out of pre-acquisition profits is very questionable, 'legal opinion' notwithstanding. There has to be an acquiring company and a subsidiary company, and the shareholding in the latter should be recorded at its proper cost as near as may be.

I am here rejecting what I presume is expert legal opinion in favour of accounting judgement of the nature of capital and revenue. That the BMC/Jaguar counsel differed from the Institute is evidence of uncertainty in the position.

It may be that the drafters think they know when a deal is a merger when they see it, and are putting forward a definition which seems to fit more or less, without perhaps claiming that the conditions specified are in themselves intrinsic to a merger. A merger might be intended to be very fundamental in the unifying of operations. How would the closure of neighbouring branches of Boots and Timothy Whites be interpreted as regards the first condition? The centralization of management with complete merging of functions may be one of the objectives of the deal. Is the condition contravened in such a case? Its accounting relevance seems unclear.

Revenue reserves per share

An acquisition through a share exchange whereby the acquirer's original shareholders have a reduced proportion of a larger net equity has the inevitable consequence of reducing the available revenue reserves per share. This is reasonable; the accumulated retained earnings are being partly used (through an issue of shares of enhanced market value) to acquire an investment in the new subsidiary.

Perhaps it seems worrying that if the acquired company has the same value as the acquiring company, the undistributed profits per share are halved. Hence the pressure to distinguish this as something different and offset this halving. It could, of course, be more than a 100 per cent offset if the acquired company had a larger balance of undistributed profits. Furthermore, if net assets (at book values) of £1 million were involved, the subsidiary's capital might be £900,000 with retained profits of £100,000, or the amounts may be reversed. This fortuitous and intrinsically unimportant relationship would, on the 'merger' principles, affect the reserves newly attributed to the old shareholders to an enormous degree. This absurdity is itself a counter to the rules now enunciated as a blessing to occasional past practice.

The draft is attempting a differentiation which seems to have no validity, and which is doubtful in law. The legal gentlemen are notoriously unsound on the distinction between capital and revenue, and I feel that our judgement as accountants should take priority unless and until a court decision establishes the law on the subject.

I suggest that the consequences of the holding company/subsidiary relationship are inescapable so that pre-acquisition profits cannot be available as revenue to the holding company. A specific Act of Parliament effecting an individual amalgamation would be needed to secure this.

An Investment Analyst's View

by R. S. ALLEN,
a partner in J. & A. Scrimgeour

THE interest of the professional investor in this draft, as in others in the series, must centre around the help which it gives him in evaluating companies. The very fact that the accountancy profession is making a sustained effort of which this draft is one example, is a great help to the investment analyst community. The Society of Investment Analysts is very pleased to be one of those organizations which comments on the drafts and has a permanent committee working on them.

The tepid reception which some industrial companies have given to the principles enunciated by the Institute is not too disconcerting. We seem to live in an age of confrontation rather than immediate acceptance of the inevitable. However strong the position taken, the normal outcome is that the rules are eventually reasserted. Meanwhile, professionals will, wherever possible, reorganize published figures in the form which the Institute recommends.

One of the most important elements in stock-markets in recent years has been the fast growth in mergers and acquisitions. It follows that the main interest of the investment analyst in ED 3 is the extent to which it helps in assessing the results of such amalgamations. Perhaps it is worth stressing again that from the analyst point of view, the most important single factor in share evaluation is the calculation of past and current earnings, together with the estimate of future earnings.

Importance of earnings

These three factors together clearly establish a trend which is, itself, of importance. Two major points which the analyst seeks to establish, therefore, are the accurate measurement of the earnings of the merged company and the establishment on a realistic basis of the earnings record before the amalgamation.

Two fundamental points can be made straight away. The first is that I am all in favour of the emphasis on acquisition rather than merger accountancy. The second is that the major problems that arise with acquisition accounting centre around the treatment of the goodwill created; this very subject is to be treated on a future occasion, and it might have been more helpful if these two drafts had coincided.

The draft comes to its conclusions in a fairly direct way and there is not much evidence adduced to arrive at the recommendations. This is in marked contrast with the position in the United States, where Accounting Research Study 5 runs to 140 fairly closely-written pages and was published simultaneously with the even longer ARS 10, *Accounting for Goodwill.* It is gratifying that the conclusions reached have much in common and, in particular, that both in this country and in the United States merger accounting or 'pooling of interests' is frowned upon. In each case it has been sought to restrict as far as possible the opportunities for this type of accounting.

This exposure draft sets strict and exact limits upon the type of amalgamation which can be classed as a merger. The principle of restriction is without any question admirable but there are dangers of setting precise standards and these, which have been arrived at without any explanation of the underlying reasoning, look both too wide and too narrow. They are too wide in allowing an amalgamation to be called a merger where the equity voting rights of one party are three times that of the other. They may be too narrow in demanding that not less than 90 per cent in value is in the form of equity voting capital. Moreover, it is certainly a false distinction to single out equity voting capital which may be converted into cash through an underwriting agreement.

Anomalies and abuses

Whatever rules are eventually adopted are bound to be arbitrary, and any complaint about those which have been chosen may seem churlish. Nevertheless, it does seem illogical that if the Institute is to place so many restrictions on the use of merger accounting, it should allow through the net a disparity in equity voting capital as wide as 3 to 1. It is very difficult to envisage an amalgamation carried out at that limit where the holder of 75 per cent of the eventual equity capital will not prove a dominant partner. It is often said that there are very few, if any, true mergers but if there are they are unlikely to be reflected in an equity structure more unbalanced than 3 to 2 (60 to 40 per cent) rather than the recommendation of 3 to 1.

The recommendation that not less than 90 per cent of offered capital should be in the form of equity voting shares is clearly designed to prevent the use of merger accounting for unworthy purposes, such as have caused so much controversy in the United States and a growing amount in this country. A small and unscrupulous company with an indifferent financial record purchases a much larger company, and keeps voting control by financing the purchase in non-voting or limited voting paper, with or without the addition of cash. An adjusted retrospective financial record on the 'pooling of interest' principle improves the background and performance of the company and, by enhancing the share price, opens the way to another such transaction.

However, it is possible to envisage a true merger where the ordinary shares of two companies are exchanged for securities in a new holding company and these securities take the form not only of ordinary shares but of, say, convertible debentures. The shareholders of each of the merged companies are offered exactly equivalent terms, so that they end up with the same ratios of ordinary shares and convertible stock, or it may be loan stock or cash. Then, clearly, a true merger has been used as an occasion to reorganize the capital of the company to the better advantage of the shareholders.

There seems to be no logic in the underwriting agreement provision; in a free market shares can be sold at any time and the fact that an immediate opportunity is given for such a sale must be incidental rather than intrinsic to the transaction.

One final point on mergers is that companies who would prefer to treat an amalgamation as an acquisition should not be prevented from doing so by reason of their terms falling within the standard laid down for the merger. This view is in direct contradiction with that laid down in paragraph 23. Here again, no explanation is offered in that paragraph for a procedure which might be regarded as unwelcome.

Acquisition accounting as standard

It seems probable that the limits for merger accounting are tight enough to mean that acquisition accounting will become the major instrument of amalgamation. Under this heading the provisions of the draft are of more concern to the accountancy profession than to the analyst. The major recommendation is that market value of the consideration should be recorded, if necessary, by creating appropriate share premium and goodwill entries.

The advantage of incorporating a goodwill element which represents the excess in market value of the acquirers' shares over the net assets of the company acquired is the eternal recognition in black and white (unless subsequently written off) of the real price paid. The first consideration should, therefore, be that the goodwill element should be accurate in at least one respect; in other words, it should be accompanied by revaluation in the assets of the acquired company so that no part of the goodwill represents the difference between book value and current values at the time of acquisition. If the American recommendation that the goodwill be written off over a set period of years were applied to, then the urge for revaluation, with its consequent reduction in goodwill, would be made a good deal stronger.

To some extent, the size of the goodwill thus created may be an historical accident. If one postulates the situation where the shares of company A, the acquirer, stand at a constant and unchanging relationship to those of company B, the acquired, and that during the course of a given time scale, both shares move through a price range in which the high point is twice that of the flow; then, depending upon the moment of the bid, the goodwill element in the eventual balance sheet will vary enormously although the number of shares issued by company A to acquire those of company B will have been unchanged.

The effect in earnings terms, therefore, to the shareholders of company A will in no way be changed whether company B is purchased at the top of the market or the bottom. The assets acquired will be just the same, their earning capacity the same, the number of shares in company A for which they will have to earn the same; all that will be different will be the size of the goodwill item. If that figure is to be written off, then there will be a direct – and it may be thought illogical – effect on the earnings per share. Apart from that possibility, the creation of the goodwill element is only of passing importance to the analyst. When he calculates the asset value he will ignore intangibles, and his denominator for return on capital employed will be net tangible assets.

Reverting for a moment to the example I have just given, a more normal case is that an acquirer's shares swing more widely in price than those of a prospective acquisition so that at the top of the market although the goodwill element in the acquired company will be larger, the cost in shares issued may prove smaller. Those who attended the Cambridge Summer Course last year[1] will remember Jim Slater saying 'If the acquiring company's shares are over-priced, issue as many as possible; and if they are under-priced, use the cheapest loan stock you can issue.' In other words, it is almost certainly commercially wiser to use your own shares at the time when you are most likely to create a goodwill element.

Conclusion

I am delighted as an investment analyst to see strict definitions circumscribing the use of merger accounting, I should have preferred reasons to have been given for the standards eventually reached and, in some respects, further restrictions on the scope for mergers; although in the more detailed provisions I would allow more latitude.

On the acquisition front, it will be interesting in due course to see the recommendations on the accounting treatment of goodwill, but these are unlikely to have much direct effect on analytical practice.

[1] *The Accountant*, September 24th, 1970.

EASTER REFLECTION

Thirty Pieces of Silver

by a member of The Accountants' Christian Fellowship

GOOD FRIDAY and Easter – the anniversary of one of history's shadiest commercial transactions! Zechariah, the sixth-century B.C. prophet, took a distinctly dim view of the 30 shekels wages with which his stint as a shepherd had been rewarded – and the early church saw a significant reflection and fulfilment of his prophetic disgust in the 30 pieces of silver that was the price of the betrayal of Jesus.

Money can buy anything – even the Man whom some called God. Is that the sum and substance of our philosophy of this life? We accountants are sometimes accused of holding out such a philosophy for our fellow men: with what truth?

The 30 pieces of silver bought for the Jewish establishment, not freedom from an irritating itinerant Preacher, but an explosion that destroyed their society. And for millions of others that which happened at Easter, in defiance of the 30 pieces of silver, has been the foundation of all that has meaning and significance for life.

F. R. C.

The Accounting World

Topics of Professional Interest from Other Countries

AUSTRALIA

Accountancy Research Foundation Director

THE new Director of the Accountancy Research Foundation is Mr W. J. Kenley, M.COM., F.A.S.A.

The Accountancy Research Foundation is sponsored jointly by the two Australian accountancy bodies, the Institute of Chartered Accountants in Australia and the Australian Society of Accountants. Mr Kenley has been associated with the Foundation since its establishment, first as secretary of its accounting and auditing research committee, and since 1969 as assistant director. Before joining the Foundation he was a member of the technical staff of the Australian Society of Accountants.

From February to May, 1970, Mr Kenley visited accountancy institutes and universities in the United States, Canada, the United Kingdom, and South Africa, under the Fellowship awarded by the Winston Churchill Memorial Trust. He is the author of *A Statement of Australian Accounting Principles*, and co-author of *Accounting for Leases*, as well as being a frequent contributor to professional journals in Australia and overseas.

UNITED STATES

Proposed New Accounting Standards

PROPOSALS for imputing interest on long-term notes and standardizing reporting of changes in accounting methods have been issued for public comment by the Accounting Principles Board of the American Institute of Certified Public Accountants.

The proposal for imputing interest would apply mainly to purchases and sales of major assets, such as a building or a plant, where the seller receives a long-term note bearing no interest, or an interest rate much lower than the prevailing current rate for a comparable note. Under the proposal, the sale price and amount of the note would be reduced to the present value of the note, using an 'imputed' or notional rate of interest.

The effect for the seller would be to report a lower immediate profit on the sale, with the reduction ultimately reported as interest income over the term of the note. The effect for the buyer would be to report a lower cost of the asset, with correspondingly lower depreciation expense over the life of the asset and higher interest expense over the term of the note.

According to Leonard M. Savoie, executive vice-president of the Institute, imputation of interest is necessary to report fairly the economic substance of such transactions.

The other proposal is intended to limit changes in accounting methods and to standardize reporting when changes are made. The proposal would restrict accounting changes to situations where it can be demonstrated that the new method will provide more useful information to investors than did the former one.

The reporting problem concerns the cumulative effect of the difference between applying the old and new methods. Under the proposal, this difference would be reported as a separate item appearing just above net income for the year. Financial statements of prior years would not be re-stated, but the effect of the change on those years would be disclosed as supplemental information.

Comments on imputed interest are due by May 1st and on accounting changes by May 15th, after which the Board proposes to issue final opinions.

Staggered Filing of Tax Returns

SHOULD the filing of Federal income tax returns, now due for most citizens on April 15th, be staggered throughout the year, with the due date for each taxpayer determined by his birth date, social security number or some other variable? Two accounting professors think it should.

Writing in *The Tax Adviser*, published by the American Institute of Certified Public Accountants, Charles A. Nickerson, of Virginia Commonwealth University, and Earl F. Davis, of the University of Georgia, suggest that cyclical filing would be more convenient for taxpayers and more economical for Inland Revenue Service.

They claim that the processing of over 70 million tax returns could be handled better over 12 months than over approximately three, with increased efficiency on the part of Revenue offices, in terms both of effective utilization of personnel and of reduced costs.

The authors concede that such a change-over would cause problems, but they say these are not insoluble. The process would be analogous to cycle billing by businesses, the purpose being to avoid the peaks and valleys which result from the sending of many bills at one time.

Against the Establishment

THE international accounting firm of Arthur Andersen & Co has consistently attacked the American Institute's Accounting Principles Board, on which it has one representative, maintaining that its pronouncements are long lists of arbitrary rules without discernible underlying principles. One partner has said that the firm will try to fill the gap with its own brief on the subject, to be published in 1971.

Its latest dissent was expressed in a warning that if the Board persisted in its contemplated opinion, since published, requiring capitalization and annual amortization over a maximum of 40 years of any goodwill acquired in a business purchase, it would cause great injury to public investors, and that attempts to enforce it would bring disaster to the profession. The firm's action is said to be under consideration by the ethics committee of the Institute.

Dr W. A. Paton, C.P.A., Professor Emeritus of Accounting and Economics at the University of Michigan, and one of the most dynamic and respected members of the accountancy profession, writes in the *Journal of Accountancy* for January of the unfortunate tendency of the Accounting Principles Board to take a positive stand on all sorts of minor points. He describes as 'a mess' Opinion No. 15 on 'Computing Earnings per Share', supported by 'a publication of a mere 189 printed pages' designed to explain it. His basic objection is that the subject should never have been tackled in the first place, for it has little relation to accounting principles.

Above all, he objects to the Board's dictatorial tendencies. It is a pretty kettle of fish, he says, when the Board attempts to lay down the law and imply dire penalties for any deviation.

SEYCHELLES ISLANDS

Policy for Development

THE Seychelles' first elected Government with ministerial responsibility has drawn the sharpest fangs from the tax system so as to provide a fiscal climate suitable for economic growth. The main feature of this year's Budget is the abolition of 'surtax' on personal incomes, the top personal rate being reduced immediately to 35 per cent. The scale of rates will commence at 4 per cent instead of 5 per cent, all the graduated rates being reduced by one-fifth except the top rates (roughly equivalent to surtax) which are being deleted altogether. The company rate will remain at 35 per cent.

Expenditure on hotels and tourist facilities will qualify for capital allowances totalling 130 per cent, deductible from the income generated by these assets to the tune of 60 per cent in the first year and 10 per cent per annum for the next seven years. Broadly similar allowances are also applicable to the ships of resident shipping companies.

In the field of agriculture, refunds of copra export duty will be available against expenditure on agricultural improvements by the plantation owner up to the full amount of the duty, which will thus no longer be a burden to the industry. No form of tax is presently payable on agricultural land, and none is being introduced. On the other hand the export duty on cinnamon, a wild crop which in recent years has produced 'windfall' profits, is being increased by means of a graduated scale, the higher rates of which will only apply if high prices return.

The government has made it clear that previous attempts to tax capital gains realized in the property boom are now to be abandoned. Instead there will be a $1\frac{1}{2}$ per cent increase on the tax paid by the purchaser of land while an equivalent tax will also be levied on the seller. This simpler and milder concept should prove much easier to administer than the forms of gains tax previously envisaged.

In order to accord a completely tax-free welcome to tourists and other visitors to the Seychelles, the government had already removed the transit tax and the airport departure tax and has now also removed the room tax on hotels, so that there is no form of taxation on visitors. In addition there are no import duties on such tourists' items as watches, cameras and films and on certain other consumer goods such as binoculars and gramophone records. These articles can be obtained readily without customs formalities, and there is no form of sales tax on these items and the various handicrafts available in curio shops. Altogether the government has gone a very long way to assuring a tax-free welcome for the tourists who are expected to flock in when the airport opens in a few months' time.

The Seychelles already has a spectrum of double taxation agreements with various countries (UK, USA, Japan, New Zealand, Canada, Mauritius, Sweden, Denmark, Norway, South Africa and Switzerland), and is hoping to extend such arrangements to a number of other countries in the near future.

BELGIUM

Committee to Study Accounting History

FOLLOWING the success of the Symposium on Accounting History held in Brussels last October (*The Accountant*, August 27th, October 22nd, and November 26th, 1970), it is proposed to set up a committee for the study of accounting history and to this end to seek the co-operation of the universities, archivists, historians and other interested researchers. The committee's officers have been provisionally established at the Collège National des Experts Comptables de Belgique, at Rue du Congres 49, Brussels 1000.

The objects of the committee include the submission of papers to professional and scientific journals, the inclusion of the history of accountancy and accounting theory in programmes of economic study, the publication of a quarterly or half-yearly bulletin for translation and reproduction in the various member countries, and to affiliate to national and international scientific bodies. It is hoped to arrange a second international symposium of accounting history in 1975.

CANADA

Corporations Act Amendments

AMENDMENTS to the Canada Corporations Act will require all federal companies, whether public or private, to include comparative figures and a statement of source and application of funds in their annual financial statements for shareholders. Private companies, however, may waive these and other specific disclosure requirements providing the financial statements present fairly the results of operations. Any company may omit comparative figures and funds statements if it discloses the reason in a note to the financial statements.

Where the financial statements cover the operations of more than one business, sales or gross revenue figures are required for each different class of business. It is the directors' responsibility to determine whether or not the financial statements include the results of more than one business and what those businesses are. Any class contributing less than 10 per cent of the gross revenue need not be disclosed.

The most contentious matter is the provision for public disclosure of the affairs of private companies. Any private company with gross revenue over $10 million or total assets in the financial statements over $5 million must file a copy of the annual financial statements, which will be open to inspection by the public for a fee. Once a company becomes subject to this requirement it will remain so subject in perpetuity.

The gross revenues and total assets of affiliates are to be included, unless the financial statements of the private company and affiliates are consolidated with those of a holding company and filed. It has been suggested that the 'affiliates' of a Canadian company would include an ultimate foreign parent company, even if a Canadian parent were interposed, in which event the provisions may prove too high a price to pay for the benefit. It seems unnecessary to sweep in all affiliated companies in meeting the size test.

Directors and officers are required to provide access for the auditor to the records and documents of any subsidiary and make any information and explanations available to him. However, the auditor's right of access is limited to such information as in his opinion is necessary for his report on the financial statements of the parent, and this vagueness may lead to professional negligence problems.

Ten Years After

by WALTER AMES

I DID not go to Rio to destroy another man's life. Yet, sitting one morning near the fountains at Trafalgar Square, I was horribly reminded that this was what I had done.

The man who shambled up to me was dirty and unshaven. He wore a stained and ragged suit, torn at the elbows and knees, which looked as though he'd slept in it for weeks. He was emaciated, and his skin was white and spongy, like a mushroom. He looked at me through bloodshot, watery-green eyes; his gaze was bleary and unfocused.

'Spare something for a drink, mate', he pleaded in a cracked voice.

I was on the point of giving him a coin and moving off, when something familiar in his face made me pause. I looked at him hard. He stooped in front of of me, with his hand out and a wheedling smile on his face.

And I knew suddenly that he was Smith.

Life in Rio

I had been in Rio only three months when I first met him. Newly qualified, I was there on contract with a firm of chartered accountants. We had the audit of a bank, and Smith was the manager of one of the branches.

He was in his early forties then, I think, and seemed to enjoy life to the full. Always gay and full of banter, he was in great demand at parties. Once we both happened to be at the same sundowner and, at the stage when everyone had been drinking freely for a couple of hours, he disappeared into a bedroom and returned wearing only a straw hat and green panties with a large black Cupid embroidered on them. He puffed an enormous cigar, and danced a flabby pirouette. With his pink flesh and immense paunch he looked grotesque, and I knew by the steel-cold look in his wife's eye that he would later regret his little buffoonery.

But his antics provided a lot of laughter, and certainly it was a very good party. It was not the sort of social behaviour normally associated with bank managers, but everyone was rather drunk, and, after all, it was Rio.

In his younger days Smith had been an Inspector of Taxes. At the Club, over a drink or two, he enjoyed telling stories of his Revenue days. He used to be the top man on back duty cases.

A nose for fraud

'I think I had a nose for fraud', he would say laughingly. 'Could spot it at once. Of course, they all came up with the betting story'. 'I won it on the horses', they'd say. 'Where are the betting slips?' I'd say. 'And it all came out in the end. I felt sorry for them, really. Who wants to make a pile on the quiet, and then pay tax on it?'

Once I asked Smith why he'd left the Revenue. 'Oh, they switch you around too much', he said. 'Send you here, send you there. As I got higher they pulled me off back duty work and sent me to Somerset House to specialize in insurance companies. That was as complex as the workings of a computer, and I can't stand London anyway. So I quit.'

All in all, Smith was a popular and well-known figure, and I got to know him fairly well through doing the bank audit. He ran the branch efficiently, and his staff respected him. He had a habit of slipping out of his office at about ten o'clock every morning, and when he returned after half an hour or so there was always whisky on his breath. But he seemed none the worse for it, and in Rio the habit was not peculiar to Smith.

The time came for me to do the year-end audit of the bank. Everything went smoothly; Smith was most affable, and always ready to help when I raised any queries.

And then I asked for the loan interest cards for a certain month. I forget why I needed those particular cards, since they were not in the period I was checking in detail. It was some trivial point, which only required a few minutes to sort out. But the cards could not be found immediately, so I asked Smith to see that the filing clerk found them for me.

I continued the audit, and finished it after a few more days. Smith was pleased with the profit of the branch; it was more than he'd expected, he said. In his office he thanked me for doing the audit so quickly, and moved to show me to the door.

The missing cards

But I gave a final glance at my audit notes, and saw that I had still not examined the loan interest cards. I reminded him.

'Oh those', he said. 'God knows where they are. By the way, did I ever tell you about the embarrassed Scotsman who thought the sign on the door said *Laddies*?'

I laughed. 'No, you didn't. But look, I must see those loan interest cards for a few minutes.'

'Let's go for a drink, old sport', he said. 'I'll find 'em myself, later on, and give you a call tomorrow.'

'I'm rather busy tomorrow', I said. 'I'd like to settle it now. It won't take a minute. Are the cards lost?'

Smith laughed. 'Of course not, old boy. But you know what these clerks are. Never put anything in the right place.'

'All right, tell you what', I said. 'I'll look at the waste sheets. It's a bit of a bother, but they'll give me what I want.'

His face suddenly blanched. 'Oh, don't worry', he said quickly. 'I'll let you have the cards tomorrow.'

The way he whitened struck me as odd. I looked at him closely, and saw a small blood-vessel in his throat pulsating strongly. There was a curious look in his eyes, a sort of controlled panic.

And it changed the watchdog in me to a bloodhound. 'I'll see the waste sheets', I said.

I went to the basement, where all the old documents and vouchers were stored. 'Give me the waste sheets for September', I said to the filing clerk.

He went to a row of shelves, and produced a bulky pile of accounting machine sheets. He carried them into Smith's office, and dumped them on the floor.

Smith sat at his desk, sullenly going through some papers.

Now that I was suspicious I had to examine the sheets closely, and it took me a long time. At last I said, 'There's a large debit here to the loan interest account. Why's that?'

'That's a damn stupid question', Smith said. 'It's the rebate a borrower gets for paying his instalment on time. You ought to know that.'

'It's a hell of a lot for a rebate. Let's see his card. It's number 56378.'

Smith picked up the intercom, and asked for the card. When the clerk brought it in he tossed it to me without looking at it. I examined it.

'The rebate isn't here', I said.

'Then it must have gone to the wrong card. It often happens.'

I looked at the waste sheet again. 'The credit wasn't to a borrower's card', I said. 'It was a payment of cash. Where did that cash go?'

Smith irritably referred me to the cashier. He played it out till the bitter end, and then confessed. He had destroyed the loan cards I wanted. The general manager asked for a full investigation, and it turned out that over the past three years Smith had embezzled a small fortune.

It was the end of his career. He was jailed for five years, and his wife returned to England immediately after his trial.

The wheel of fate

On the personal level the whole business upset me quite a lot. I was young at the time, and had quite liked Smith. I had trusted him, and it was only by chance that I had discovered the fraud. I never did find out why he had been so stupid. There were rumours that he was being blackmailed, but nothing definite was established. The episode blew over in time, and eventually I left Rio and returned to London.

And now, ten years after it all happened, I was face to face with Smith again. I was appalled at what had become of him. He was an outcast, a derelict, and I realized that I had helped to make him like that.

I rose and dipped in my pocket quickly, and pulled out a pound note. I pushed it into his outstretched hand.

Surprised at the paper money, he blinked down at it, and then looked at me. His face contorted with the effort of focusing. He stared for a long time.

Then a curious look came into his eyes; an expression of hatred, and bitterness, and contempt. His mouth twisted into a sneer. 'You swine', he croaked.

I looked down, and saw his hand crumpling the note. He crushed it into a tiny ball, and flicked it away with his thumb. It spun in an arc, and landed near one of the stone lions.

It was a waste, but his action gave me a strange comfort. His spirit was not entirely broken; he still had his pride.

I turned from him, and walked away. I reached the corner of the street, and turned it. But I had a sudden impulse to take one last look at Smith, so I stepped back again.

He was bending down near the stone lion. Then he straightened up, put something in his pocket, and shambled away.

MANAGEMENT INFORMATION

Bigness – a Benefit or a Burden?

ONE of the dominant features of the business scene in the last decade or so is the cult of bigness. Whilst many of the mergers and take-overs have been designed to unlock values in a business which the existing management team had been unable or unwilling to do, there have been those which have been motivated by the view that a larger unit will create more efficiency and thus a higher level of profitability. In some cases size is a function of perceived changes in technology, which have demanded plants of a minimum capacity in order to take advantage of new techniques; in others the scale of investment needed to develop and launch a new product, e.g., a new civil airliner, is so large that the smaller company cannot support the financial burden.

One consequence of the Rolls-Royce collapse is to explode the myth that companies of such a size will not go bankrupt or could not be allowed to for one reason or another. It may also permit a more rational discussion as to whether bigness is a benefit or not. Clearly some effort should be made to decide the criteria upon which that decision can be made and whether upon the evidence so far a case can be made out for increasing size.

Beneficial for whom?

It is essential that one should be quite clear from the start whose interests one is considering, since a number of motives can be discerned in mergers and take-overs. There is no doubt that some cases originate in the enjoyment of power by the chief executive, but one would not judge the effects of increasing size on the criterion of satisfaction of this motive. Nor would one tend to judge it upon the extent to which it provides employment, though there may be more long-term implications for the general level of employment.

Subject to the external constraints that may be necessary in monopolistic situations, the test of success should be the impact of increasing size on the values accruing to the owners of the business. They will be the first to gain or suffer from the policy; whether they gain or suffer will tend to influence the general prosperity and growth in the economy as a whole and thence the general level of economic activity. If the cult of size is successful and improves some measure of productivity then, even although employment may suffer initially from the improved productivity unless matched by immediately increased sales volume, there is the possibility that the rising level of profitability will stimulate economic growth sufficiently to compensate for this.

If one therefore judges the effect of bigness by its impact upon the value to the owners, what factors are likely to influence that value? Some of the more critical factors which one would try and measure in some way would be:

(*a*) Inventiveness and innovation.

(*b*) Labour productivity.

(*c*) Profitability.

Inventiveness and innovation because the ability to generate and implement new ideas and adapt to new circumstances is at the heart of future growth; labour productivity because this is the largest single activity (and cost) in most organizations; profitability because in the last resort it is upon this factor that success will be judged.

Inventiveness and innovation

Do large companies generate more ideas than small ones? The process of generating new ideas can be separated into four stages:

(*a*) Identifying the problem.

(*b*) Exploring possible ways of solving the problem and testing against data.

(*c*) An act of insight occurs.

(*d*) The perceived solution is refined into an acceptable generally understood proposition.

Some authorities argue that more than 80 per cent of major inventions come from individual inventors or those with small organizations of their own. In an article entitled 'Invention, innovation and size' which appeared in the Autumn 1970 issue of *Moorgate and Wall Street*, Bruce Lloyd quotes from a number of studies in this field.

The inventive output per £1 of R & D expenditure seems to decline with increased size, being lower in the largest firms than in those of smaller size; there was no evidence that the largest firms spent more on R & D relative to sales than other firms, and in some cases it was significantly less; out of 13 major innovations in the American steel industry, four came from European companies, seven from independent inventors and none from the companies themselves. Laboratories of large firms are principally contributors to minor 'improvement' inventions.

Innovation differs from inventiveness and R & D. It is concerned with the ability of the organization to adapt to new, changed, conditions. Is the large organization with its multiplicity of levels of management operating within a fairly rigid framework able to adapt more easily than a smaller organization with fewer links in the managerial chain with perhaps a looser organization structure? Common sense would indicate that this is unlikely and the practice of the large organization in setting up semi-autonomous divisions or subsidiaries with greater flexibility in decision-taking at lower echelons of management can be seen as an attempt to escape from the organizational disadvantages of size.

Labour productivity

Within any industry there will be differences in productivity as between individual firms, and an analysis of the causes of those differences will show whether or not they are due to size or other factors. There are obvious difficulties in carrying out such an analysis, but the results of a recent research project based upon the 1958 Census of Production

deserves attention. This is reported on in an article entitled 'Interfirm differences in productivity and their relation to occupational structure and size of firm' by M. C. Fleming, which appeared in the September 1970 issue of *The Manchester School.*

The measure of productivity is based upon the value of the net output per employee during the year and is on an industry basis. Differences in productivity are related to two factors: (*a*) the relationship between the number of administrative, technical and clerical staff in each firm and the number of direct employees, and (*b*) the size of firm.

Whilst the author of that paper rightly points out the difficulties in interpreting the results of the study it is well worth quoting from some of his conclusions:

> 'The most striking feature of the analysis was the clear tendency for higher average levels of output per person to be found in those groups of firms employing relatively greater proportions of administrative, technical and clerical staff on the average and for this to be consistent over all industry groups studied. This relationship was statistically significantly in two-thirds of the cases. The analysis of the productivity differences in terms of size of firm showed that almost invariably this was a weaker explanatory variable.
>
> 'It is clear, therefore, that size *per se* is not a sufficient determinant of a high proportion of non-operative staff nor of a high level of output per person.'

Profitability

Are there any indications that the larger firms are more profitable than smaller firms? Unless this can be answered with a clear 'Yes', then the arguments in favour of size must fail or at least be inconclusive.

Attempts have been made to answer this question and two of these will be examined. J. M. Samuels and D. J. Smyth analysed a population of 186 UK companies over the period 1954 to 1963 and published their results in the May 1968 edition of *Economica.* The criterion of firm size that was adopted was asset value. The purpose of the study was to examine (*a*) the behaviour of profit rates, and (*b*) the variability of profit rates in relation to size, and the relation between industry concentration and the variability of profit rates.

The authors summarized their conclusions in the following terms:

(1) Profit rates and firm size are inversely related.
(2) There was a pervasive tendency for profit rates to fall over the period covered, 1954–1963.
(3) The time variability of profit rates and the intra-group variability of profits are both inversely related to firm size.
(4) Firms operating in highly concentrated industries have less variable profit rates than firms operating in less highly concentrated industries.

These views are supported by a study published as a University of Cambridge Occasional Paper (number 7) under the title 'Growth profitability and valuation', by A. Singh and G. Whittington. In their summary and conclusions they have this to say:

> '. . . in each of the industries examined, the average growth rate measured in terms of net assets is remarkably independent of the opening size of firms. The same is also true of profitability, when measured in terms of either of our rates of return. . . .
>
> 'Although the *average* growth rate does not vary significantly with the size of firm, we have found that the *variability* of growth rates as between firms does change with size to a significant extent, and that the tendency is for it to decrease as size increases.'

Conclusions

The assumptions upon which mergers and take-overs are based should at this stage be reconsidered. From the evidence so far it does not appear that the trend to bigness is good either for the owners of the business or for the country as a whole. Quite apart from undesirable monopolistic tendencies which may emerge from such a trend, increasing size may blunt inventiveness and ability to change, with the possible final spectre of emerging from the process less profitable.

Taxation Case

Argosy Company Limited *v.* Guyana Commissioner of Inland Revenue

In the Privy Council – February 8th, 1971

(Before Lord Reid, Lord Morris of Borth-y-Gest and Lord Donovan)

Income tax – No return – Books destroyed in riot – Large carry-forward of losses – Estimated assessment – Whether assessment valid – Income Tax Ordnance, section 48 (4) – Income Tax Amendment Ordnance 1956, sections 1 (3), 10, 11, 12.

The company sold all the sections of its business except one in 1961, and went into voluntary liquidation in March 1962. The liquidator was not able to make a return for 1961–62, because all the books of account were destroyed by fire in a riot in February 1962. This inability was explained to the Commissioner in 1963, but nevertheless an assessment was made on October 31st, 1963, in the sum of $25,000. The assessment was made under section 48 (4) of the Income Tax Ordnance, which enables the Commissioner to do so, if he is of opinion that the person is liable to pay tax. In 1959 the company had made a trading loss of $32,173, and in 1960 a loss of $30,171 – a total of $62,344. This total loss was available for setting off against any profit of 1961–62.

It was contended for the company that the Commissioner was not in a position to form a reasonable opinion that the company was liable to pay tax for 1961–62, because *inter alia* the large carry-forward of losses would have cancelled the estimated assessment of $25,000. The Board of Review annulled the assessment.

Held: the annulment was correct.

FINANCE AND COMMERCE

Gillett Brothers' Accounts

THIS week the accounts of one of the leading companies in the London Discount Market provide the focus of attention. The balance sheet of a discount company is in truth a list of balances – not that other balance sheets are anything else – but the figures in terms of Treasury and commercial bills, certificates of deposit and investments are the balance of those accounts as at the accounting date. Whereas in a trading company the balances might not vary to any great degree on consecutive days, one day in the discount market could make a deal of difference if it happened to be 'one of those days'.

Of particular interest in the Gillett Brothers report is the 10-year-record, and the interest is centred on the business trends indicated by the records of Treasury bill purchases, other bill purchases and bond turnover. The figures show how business in Treasury bills has, on balance, declined in itself (although it has improved from a 1967 low point) and is now a substantially lower proportion of total business as turnover in commercial and local authority bills and bonds has increased.

This trend was beginning to develop in the 1950s but really got going in the sixties as new facets of the market were developed and new instruments of dealing were introduced.

New instruments

Gillett Brothers describe themselves as 'Dealers in deposits and short-term money market instruments', and list those deposits and instruments as: British Government Treasury bills, London bank acceptances, local authority bills, local authority one-year bonds, British Government short-dated bonds, sterling certificates of deposit, London dollar certificates of deposit and bills in dollars and other marketable Euro currencies. Discount companies, it will be noted, do not deal in currencies themselves and do not, for instance, deal in Euro dollars.

Mr David Whitby, in his statement with the 1970–71 accounts, admits that the company 'enjoyed very profitable trading conditions throughout the year in an expanding range of short-term instruments, both in sterling and Euro currencies.' Many institutions have begun to employ short-term funds to advantage in purchasing appropriate instruments direct from the market without the use of any intermediary and this has broadened the company's dealing base and has improved the marketability of securities.

During the year there was less competition for Treasury bills because of higher yields available on other instruments. Other bill business in sterling ran at somewhat higher levels partly due to the slight easing of credit restrictions and partly in the growth of the company's trade in local authority bills.

GILLETT BROTHERS DISCOUNT COMPANY LTD

Ten year record

Year ending 31st January	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
ISSUED CAPITAL										
3½% Redeemable Cumulative Preference Stock	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Ordinary Stock	1,250,000	1,250,000	1,500,000	1,500,000	1,500,000	1,500,000	1,750,000	1,750,000	1,750,000	1,750,000
Published Reserves	1,053,064	1,336,907	1,269,811	1,275,789	1,292,011	1,301,947	1,032,987	1,031,487	1,051,329	1,107,631
	2,553,064	2,836,907	3,019,811	3,025,789	3,042,011	3,051,947	3,032,987	3,031,487	3,051,329	3,107,631
BALANCE SHEET TOTAL	93,703,679	104,934,052	109,153,445	104,380,955	107,666,401	117,080,023	119,384,783	121,488,325	119,080,653	147,601,911
PROFIT for the year after taxation and undisclosed transfers to reserve for contingencies*	214,005	404,046	451,075	149,149	203,551	243,686	239,790	182,250	247,342	327,552
COST OF DIVIDENDS—GROSS										
Preference Stock	8,750	8,750	8,750	8,750	8,750	8,750	8,750	8,750	8,750	8,750
Ordinary Stock	156,250	187,500	225,000	225,000	225,000	225,000	250,000	175,000	218,750	262,500
	165,000	196,250	233,750	233,750	233,750	233,750	258,750	183,750	227,500	271,250
Less income tax deducted from dividends and retained	63,938	76,047	90,579	90,579	96,421	—	—	—	—	—
COST OF DIVIDENDS	101,062	120,203	143,171	143,171	137,329	233,750	258,750	183,750	227,500	271,250
BONUS ISSUES OF ORDINARY STOCK	—	1 for 5	—	—	—	—	1 for 6	—	—	—
TREASURY BILL PURCHASES (1961=100)	98	89	80	71	63	58	81	61	62	72
OTHER BILL PURCHASES (1961=100)	153	177	215	268	348	344	376	438	533	607
BOND TURNOVER (1961=100)	145	241	457	289	333	380	672	688	693	459

* 1969 Profit for the year after charging part of the losses on realisation of investments to reserves for contingencies

* 1970 Profit for the year after undisclosed transfer to reserve for contingencies

GILLETT BROTHERS DISCOUNT COMPANY LTD

Balance Sheet at 31st January 1971

1970 £	CAPITAL	£	£
	Authorised—		
250,000	250,000 3½ per cent Redeemable Cumulative Preference Shares (*Note 2*)	250,000	
2,250,000	2,250,000 Ordinary Shares	2,250,000	
£2,500,000		£2,500,000	
	Issued and converted into stock—		
250,000	£250,000 3½ per cent Redeemable Cumulative Preference Stock (*Note 2*)	250,000	
1,750,000	£1,750,000 Ordinary Stock	1,750,000	
			2,000,000
250,000	CAPITAL RESERVE		250,000
750,000	GENERAL RESERVE		750,000
	PROFIT AND LOSS ACCOUNT		
51,329	Unappropriated balance		107,631
3,051,329			3,107,631
109,355,000	LOANS, secured on the assets of the company	131,615,000	
6,543,074	DEPOSITS, OTHER LIABILITIES AND RESERVE FOR CONTINGENCIES (including deposit by subsidiary company £6,247)	12,704,280	
131,250	ORDINARY STOCKHOLDERS FOR PROPOSED FINAL DIVIDEND, (gross)	175,000	
			144,494,280
£119,080,653			£147,601,911

1970 £	CURRENT ASSETS	£	£
542,237	BALANCES AT BANKERS AND CASH IN HAND		395,455
	BILLS DISCOUNTED, less rebate		
25,307,253	British Government Treasury bills	32,556,179	
51,903,461	Commercial and other bills	75,288,974	107,845,153
12,213,849	LONDON STERLING AND DOLLAR NEGOTIABLE CERTIFICATES OF DEPOSIT AND CURRENCY ACCEPTANCES at or below cost		13,093,123
21,341,611	INVESTMENTS at less than market value (quoted) British and Dominion Government securities, British corporation and county stocks and British local authority bonds	22,301,830	
2,474,430	Other investments	1,884,600	24,186,430
5,047,812	DEBTORS, LOANS ON SECURITY and other accounts (*Note 3*)		1,831,750
	SUBSIDIARY COMPANY		
250,000	Gillett Investments Ltd, at cost		250,000
£119,080,653			£147,601,911

R. D. WHITBY
W. J. KILPATRICK *Directors*
F. SEEBOHM
D. C. G. STARKEY *Secretary*

This balance sheet should be read in conjunction with the notes appearing on page [below].

GILLETT BROTHERS DISCOUNT COMPANY LTD

Profit and loss account for the year ended 31st January 1971

1970 £		£	£
247,342	Profit for the year after providing for rebate, amortisation of stock premiums and taxation and after transfer to reserve for contingencies (1970 *Note 4*)		327,552
31,487	Balance from previous account		51,329
278,829			378,881
	DEDUCT		
	Dividends paid and proposed		
	Gross—		
8,750	On Preference Stock	8,750	
	On Ordinary Stock		
87,500	Interim of 5 per cent	87,500	
131,250	Final of 10 per cent (7½ per cent)	175,000	
227,500			271,250
£51,329	BALANCE carried to Balance Sheet		£107,631

This account should be read in conjunction with the notes appearing on page [next column].

Notes on accounts

(THESE NOTES FORM PART OF THE ANNUAL ACCOUNTS.)

1. Under the Companies Acts 1948 and 1967 the company is not required to show separately the aggregate amount of or movements on its reserves, nor the market value of its investments.

2. The preference stock, as a whole but not in part, is liable to redemption at the option of the company at any time on three months' notice at a premium of £2.50 per cent.

3. There is included with debtors a sum recoverable by the company in respect of income tax suffered by deduction from interest received after taking into account corporation tax on profits to date.

4. In 1970 the profit of £247,342 was shown after providing for rebate and amortisation of stock premiums and after transfer to reserve for contingencies.

5. Foreign currency has been converted at the rate of exchange ruling on 31st January 1971.

6. The company is not required to disclose its turnover.

7. The remuneration of the auditors was 1971 £1,200 (*1970 £1,050*)

8. There is a contingent liability on commercial bills rediscounted, of £7,514,529 (*1970 £12,470,300*)

9. The emoluments of the directors of the company for services to the company and its subsidiary were:

	1971	1970
Directors' fees	5,250	7,500
Other remuneration (including provision for future pensions)	83,262	77,054
Pensions paid in respect of retired directors	3,522	3,518
	£92,034	£88,072
Emoluments of the Chairman (included above)	£13,000	£10,225

Number of directors whose emoluments		
did not exceed £2,500	3	3
exceeded £2,500 but did not exceed £5,000	—	1
exceeded £5,000 but did not exceed £7,500	1	3
exceeded £7,500 but did not exceed £10,000	5	3

GILLETT INVESTMENTS LTD

Revenue account for the year ended 31st January 1971

	1971 £	1971 £	1970 £	1970 £
Investment income (gross)				
from quoted investments—franked	831		1,553	
from quoted investments—unfranked	3,478		2,803	
from unquoted investments—unfranked	7,628		6,538	
		11,937		10,894
Interest		7,541		9,879
Underwriting commission		1,938		4,204
		21,416		24,977
Profit (*1970 Loss*) on realisation of investments		2,361		(2,456)
		23,777		22,521
Interest on bank loans	1		52	
Other expenses (*Note 5*)	1,414		1,374	
Provision for depreciation on investments	57,370		—	
		58,785		1,426
Deficit (*1970 Profit*) for the year before taxation		(35,008)		21,095
Taxation				
Corporation tax (*Note 6*)	—		8,907	
Double tax relief	—		1,024	
	—		7,883	
Overseas tax	1,103		1,024	
Income tax on franked investment income	—		641	
		1,103		9,548
Deficit (*1970 Profit*) for the year after taxation		(36,111)		11,547
Less tax adjustments in respect of previous years		12,396		—
		(23,715)		11,547
Balance from previous account		72,416		60,869
Balance carried to Balance Sheet		£48,701		£72,416

See notes on page [below]

GILLETT INVESTMENTS LTD

Balance sheet at 31st January 1971

	1971 £	1971 £	1970 £	1970 £
FIXED ASSETS				
Investments (outside Gt. Britain) at cost (*Notes 1, 2 and 3*)				
Quoted	65,145			
Unquoted	70,249		56,582	
		135,394		56,582
CURRENT ASSETS				
Quoted investments at the lower of cost or market value (*Notes 1 and 3*)	133,449		141,600	
Debtors	4,915		—	
Sterling certificates of deposit	—		102,067	
Payments in respect of stock applications	21,000		—	
Balance at bankers (holding company)	6,247		47,033	
		165,611		290,700
		301,005		347,282
CURRENT LIABILITIES				
Creditors	2,304		18,054	
Corporation tax due 1st January, 1971	—		6,812	
		2,304		24,866
		£298,701		£322,416
Represented by				
SHARE CAPITAL				
Authorised, issued and fully paid 250,000 shares of £1 each		250,000		250,000
REVENUE RESERVE				
Balance of revenue account		48,701		72,416
		£298,701		£322,416

See notes on page [below].

GILLETT INVESTMENTS LTD

Notes

1. Overseas investments have been valued at current rates of exchange on 31st January 1971.

2. The Company holds 33,000 (14.7%) of the 225,000 ordinary shares issued by The Discount Company of Rhodesia Ltd, a company incorporated in Rhodesia.

3. The valuation of the investments at 31st January was as follows:

	1971	1970
Fixed assets unquoted, at directors' valuation	150,000	131,272
Fixed assets quoted, at market value	67,473	—
	217,473	131,272
Current assets quoted, at market value	133,449	141,600
	£350,922	£272,872

4. The turnover for the current year amounted to £858,200 (*1970, £1,368,634*). This is calculated by adding gross investment income, the cost of investments purchased and the sale proceeds of investments sold.

5. Other expenses include:–

Audit fee	£300	(*1970, £210*)
Directors' Salaries (including Chairman's emoluments £250)	£550	(*1970, £450*)

6. There are corporation tax losses amounting to £36,000 available for relief against future profits.

GILLETT BROTHERS DISCOUNT COMPANY LTD

Report of the Auditors to the members of Gillett Brothers Discount Company Ltd

In our opinion the accounts of the Company set out on pages [457 to 458] and the group accounts comprising the accounts of the company and of its subsidiary Gillett Investments Limited for the year ended 31st January 1971 comply with the provisions of the Companies Acts 1948 and 1967 applicable to discount companies.

DELOITTE & CO.
Chartered Accountants

London
17 February 1971

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assisted by

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The Budget and its underlying policies.
Brief outline of the Green Paper on Value Added Tax.
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The Personal Tax Changes
Extension of child relief
Extension of earned income relief
Changes in other personal reliefs
Removal of aggregation of children's income in 1972/73
Taxation of sub-contractors in the construction industry
Abolition of short-term gains tax
Changes in capital gains tax
Estate duty and stamp duty changes.

The Business Tax Changes
Reduction of rate of corporation tax
New rules for shortfall
Other close company changes
New rules for depreciation on machinery and plant, mining works and industrial buildings in development areas.

Changes in pension arrangements
Outline of the 1970 provisions for occupational pensions
Changes in these provisions
Changes in the rules for pensions for self-employed and those not in occupational schemes.

The White Paper on personal tax reform and its implications.

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Local authorities

Mr Whitby makes the point that bills issued by local authorities are not subject to the credit restrictions, and for some years the company has encouraged local authority treasurers to supplement their short-term funds by issuing bills. Not all local authorities have the constitutional power to do this and in some cases Gillett Brothers have been able to help in promoting Acts of Parliament giving authorities bill-issuing powers. The chairman comments, 'The resulting bills have added to our turnover, and we believe they have provided a useful addition to the resources of the treasurers'.

Turnover in the short-dated bond market was somewhat down on the previous year due to some reduction in switching in favour of straight jobbing operations. But in a volatile period for the gilt-edged market, the company traded actively and profitably. Trading in sterling certificates of deposit was 'highly profitable' and there are now more than £1,000 million in issue.

Directors' interests

The accounts of Gillett Investments, a wholly-owned subsidiary, are shown separately. The subsidiary's main business is of dealing in stocks and shares in London, but last October Gillett Investments took a small participation in Tricontinental Corporation, a merchant bank based in Melbourne. 'This', the chairman says, 'gives us a direct interest through the money markets in the dynamic growth of the Australian economy.'

The form of the parent company's accounts complies with the provisions of the 1948 and 1967 Acts applicable to discount companies. Under those provisions the company need not disclose the amount of or movements in reserves, the market value of investments or the turnover.

Discount company shares are very much an institutional investment but the Britannic Assurance Company, with £186,666 of the equity, is the only shareholder with a holding of over 10 per cent of the issued equity capital. The directors' holdings are relatively small, the biggest personal holding being £1,166. The directors' report shows the total holdings of the 10 directors to be £7,282.

CITY NOTES

ALTHOUGH it would now seem correct investment policy to shift the emphasis from fixed interest securities to equities, the shift is being grudgingly made. Consensus of opinion is that in terms of the *Financial Times Index* the market is now in a 350–450 bracket whereas before the Budget it was quite plainly in a 300–350 one.

Wall Street's heady performance following President Nixon's decision to attempt to contain inflation by expansion rather than restriction of the economy has naturally led to equally heady thoughts of a similar performance by the London market.

But though the factors may seem identical, the circumstances are not and there are too many obvious reminders of trouble at home for followers of the London stockmarket to fall into a trap of over-optimism. But at least there is now a basis for optimism – the economic switch from restriction to expansion has been made.

RATES AND PRICES

Closing prices, Tuesday, April 6th, 1971.

Tax Reserve Certificates: (25.2.70) Companies 5½%; 3% surrendered for cash; Personal 4%

Bank Rate

Nov. 9, 1967	6½%	Feb. 27, 1969	8%
Nov. 18, 1967	8%	Mar. 5, 1970	7½%
Mar. 21, 1968	7½%	April 15, 1970	7%
Sept. 19, 1968	7%	April 1, 1971	6%

Finance House Base Rate – April 1st, 1971. 8%

Treasury Bills

Jan. 29	£6 15s 5·39d%	Mar. 5	£6·6940%
Feb. 5	£6 15s 6·20d%	Mar. 12	£6·6659%
Feb. 10	£6·7668%	Mar. 19	£6·6416%
Feb. 19	£6·7299%	Mar. 26	£6·6242%
Feb. 26	£6·7157%	April 2	£5·8293%

Money Rates

Day to day	4⅜-6%	*Bank Bills*	
7 days	4¼-6%	2 months	7-7⅛%
Fine Trade Bills		3 months	7-7⅛%
3 months	7½-8%	4 months	7 7⅛%
4 months	7½-8%	6 months	7 1/16-7 3/16%
6 months	7¾-8%		

Foreign Exchanges

New York	2·4191	Frankfurt	8·7815
Montreal	2·4335	Milan	1504·40
Amsterdam	8·7005	Oslo	17·2415
Brussels	120·07	Paris	13·3380
Copenhagen	18·1075	Zürich	10·3945

Gilt-edged

As well as the usual prices quoted at the close of business on press day, we also give below the quarter-end prices.

	Mar. 31st	April 6th
Consols 4%	44⅝	43⅜
Consols 2½%	28	27¼
Conversion 3½%	39	37¾
Conversion 5% 1971	99 15/32	99¾
Conversion 5¼% 1974	95⅝	96⅛
Conversion 6% 1972	99¼	99¾
Funding 3½% 99–04	46⅜	45
Funding 4% 60–90	97½xd	97⅓xd
Funding 5¼% 78–80	84⅜	83¾
Funding 5½% 82–84	79¾	79⅛
Funding 5¾% 87–91	71	70½
Funding 6% 1993	71⅜	70⅞
Funding 6½% 85–87	80¼xd	79⅜xd
Savings 3% 65–75	87	86¾
Treasury 6½% 1976	96⅛	96⅝
Treasury 3½% 77–80	76	74¾
Treasury 3½% 79–81	73¾	72¼
Treasury 5% 86–89	66¼	65¼
Treasury 5½% 08–12	63¼	61¾
Treasury 2½%	27¾	26⅞
Victory 4%	95½	95½
War Loan 3½%	40¼	39⅞

Letters

To Love and to be Wise...

SIR, – Mr Jack Clayton is to be congratulated upon his article in *The Accountant* of March 25th. The 'gravy train' he mentions consists not only of the invidious investment grants, but also the refunds of selective employment tax to much the same groups.

One feels that the real reason behind these 'gravy trains' is that they mainly benefit those industries whose trade unions are very strong, and thus enable payment of unjustifiable wages demands.

Mr Clayton is also to be congratulated upon his quotations, thus: W. H. Beveridge, 'misery generates hate'. Goodness knows, there is little financial shortage today amongst the rank and file, but never has there been more 'hate' around, as evidenced by strike after strike, work to rule, student anarchy, etc. Again, Lord Chandos, 'Governments prefer a little inflation to large-scale social disturbance' – we are having, unfortunately, far too much of both at the present time.

Mr Clayton tries in Table 3 to quantify the 'British disease', which includes £600 million on social security. Unfortunately today the taxpayer has to provide both the *panem* and the *circenses*. No one wants to see hunger or poverty, but how much of 'social security' goes in bingo, booze, and betting?

Mr Clayton utters an awful warning – when inflation got out of hand in the German Weimar Republic, it was followed by the rise to power of a dictator.

Surely we are a sensible enough people to snap out of the dreadful fools' paradise we have been living in for the past few years; people like Mr Clayton are doing a noble service by trying to put us on the road to sanity again.

Yours faithfully,

Peterborough. J. G. MEDCALF.

SIR, – Oh no, Jack, no Jack, no Jack, NO!

At the end of an amusing, erudite, pungent, illuminating and forthright article spanning two issues of *The Accountant* (March 25th and April 1st), Mr Jack Clayton spells out his cure for inflation, ' . . . a price freeze: a simple bill to establish that: "No person may increase any price without consent of HM Government" '.

The twin evils of excessive public sector spending (PSS) and excessive taxation are the causes of inflation and the cure is to cut both. In fact, I believe, taxation should be swept away completely. Government expenditure, after drastic pruning, should be financed in one of two ways:

(1) Capital expenditure, through the normal market channels.

(2) Revenue expenditure, through a *contribution* by individuals and companies, based on a detailed assessment of their respective 'ability to pay'. These contributions would be collected in whatever way was most convenient to the individual or the company. At the moment, Government gets its money a damn sight too easily.

Yours faithfully,

Northwood, Middx. D. A. TRIGWELL, F.C.A.

Accounting for Human Resources

SIR, – Your correspondent ('Management Information', March 18th issue), seems, like all who have written on this subject, to have discovered the crock of gold. The spectacle of an educated member of the population delivering his asset value to some impersonal employer and asking nothing in return except the right to be fired if he should depreciate too rapidly, is one which I find difficult to believe in.

Any responsible view of the employment relationship must include an estimate of the liabilities which the firm incurs when it enters into a contract of employment – liabilities which increase as the economy becomes more complex and relations with workers more regulated. In view of the chronic shortage of labour which the Industrial Revolution introduced 150 years ago and which has been with us ever since, it is extremely doubtful whether workers are receiving less than a fair share of the proceeds of their labour; if they are receiving more, then presumably the net present value of their future services to the firms which employ them would be negative? While crude attempts to avoid issues such as these may be acceptable in an academic publication, I doubt whether the sophisticated readers of *The Accountant* will want to avoid them.

The problem posed, in short, is a false one; what we should be concerned with is the individual's value *to himself* so that we can devise more flexible employment arrangements on the lines of modern methods of financing the use of equipment. It is strange to see the arguments in favour of slavery coming back again, after so many years; perhaps Maitland was wrong and we are in fact moving back again from contract to status?

Yours truly,

Texas A & M University, USA. KENNETH S. MOST.

The Association's Future Plans

SIR, – Although your leader of January 14th dealt with the Association's 'Future Plans', no doubt the postal workers' strike prevented the normal debate from taking place in your correspondence columns.

The general view is that 'Future Plans' should strengthen the present organization and introduce a greater commercial element to the Council, together with catching up with some other reforms that are long overdue for implementation.

Historically, there was a great deal of similarity between the work undertaken by the practising member and his counterpart in commerce. The work of the latter has, however, recently changed in a revolutionary way with the introduction of management science techniques that have made management accounting/information almost a subject in its own right. Little recognition has been given to this important aspect and the need for change by the Association's Council until their utterances in 'Future Plans'. Possibly one of the reasons for this was that the Council

consisted largely of practising members who were denied the first-hand experiences of these developments.

In view of the manner in which the two factions are developing, some people are beginning to wonder whether the Association can adequately serve both from a single organization. But if it must, Council must be aware that the Association will stand or fall on the success it will achieve in recruiting and training from commerce and industry. If the disappointing recruitment figures, in comparison with the other bodies, of the sixties are allowed to repeat themselves into the seventies, all will be lost.

In order that the commercial accountant can be correctly represented and new recruits adequately trained, in addition to 'Future Plans' the following reforms should be introduced:

(1) The balance between practising and commercial members on the Council should be proportional to the membership, i.e., practising 25 per cent, non-practising 75 per cent.

(2) The Council should be smaller, not larger, and should meet no more than about six times a year; it should act as a board of directors, not combining this with that of a management committee. This should encourage the right quality younger commercial accountant to come forward who has limited time available to devote to this type of work.

(3) And connected with (2) there should be fewer, not more, committees with far more delegation of duties to full-time officials.

What is so important is the attitudes of the people on the Council and at the Secretariat, more so than the structure of the organization, and if these are not changed then little headway will be made. No longer can we allow the Association to be dominated by the practising member, for even with the best intentions the needs of the commercial element will not properly be covered unless they themselves participate more in the Association's affairs.

Yours faithfully,

R. MITCHELL, A.A.C.C.A., J.DIP.M.A.

Wallington, Surrey.

Thank You

SIR, – Now that the postal strike is over, I would like to express my appreciation of your efforts to ensure distribution overseas of your publication.

There are no daily newspapers in the British Virgin Islands, and the small weekly paper deals almost entirely with local news, and the regular arrival of *The Accountant* was most welcome.

Yours faithfully,

N. BARTON.

Tortola,
British Virgin Islands.

'Perimetric'

Compiled by KENNETH TRICKETT, F.C.A.

The twenty-four letters on the edges of the completed diagram may be arranged to form a topical three-word phrase.

CLUES ACROSS

7. Levelling a reinforcement of book-spine (7).
8. Distrainer roped in somehow (7).
10. Possibly a rarer condition of being behindhand (6).
11. Sanction Associated Press briefly for little value (8).
12. Responsibility concerning America (4).
13. Promotion before excitement (10).
14. Without a grant, not yet admitted by the Institute? (11).
19. Where to read the news, or the examination questions (2, 3, 5).
22. Semi-original backward Post Office service (4).
23. Interpolator has to put in a ring (8).
24. Obligatory customs (6).
25. Registers an indefinite number of attempts (7).
26. Arbitrator controlling the game (7).

CLUES DOWN

1. Coins flourished with gold in society (7).
2. Iron pens misplaced by oneself (2, 6).
3. Upper-class London district the least bit open (6).
4. Fill in total (8).
5. Fit to notify (6).
6. What is left of the matches (7).
9. Explode to give an account (4, 1, 6).
15. Security over goods under the hundred (8).
16. Number of the engine, not new, reconditioned (8).
17. Free with loose sheets (7).
18. Citizens unimpeded by draughts, perhaps (7).
20. Cheerful legal term (6).
21. Pay off (think again!) (6).

The solution will be published next week.

STUDENT ROUNDABOUT

Finding Out at Cambridge

THE formulae used in published accounts to describe methods of valuation of stock and work in progress and the depreciation ratios in informing a third party of the actual methods of valuation used were all quite useless, declared Mr A. Patrick Ravenhill, F.C.A., fund manager of the Airways Joint Pension Scheme, speaking at the Cambridge residential course of the London CASS last week.

The course, which had as its theme 'Finding out', provided the 100 or so who attended with a useful appreciation of how to assess the relevant from the irrelevant in published accounts and thus to provide a better understanding of the accounting techniques necessary for management today. Held from Thursday afternoon to Sunday afternoon at Corpus Christi and Pembroke Colleges, the course, conducted by Deloitte, Robson, Morrow & Co, was strong in continuity. It certainly achieved its objective of getting students to look beyond the narrow context of accounting trivialities.

The main theme of Mr Ravenhill's address on 'Finding out about the past' was how much the investigating accountant could deduce from looking at published accounts. Greater disclosure of valuation methods, he said, would be of considerable benefit to an investigating accountant and it was therefore to be welcomed that the Institute had laid down a series of exposure drafts on standard accounting practices. Any auditor of a company, said Mr Ravenhill, who did not accept these standard practices would have to qualify his report or explain to the Institute why he did not do so. This meant that published accounts would eventually become more useful as more information was disclosed and comparisons would be possible between two sets of accounts.

Improved treatment

He also dealt with the different methods of valuing stock as this was the most unsatisfactory area of valuation in a balance sheet. Whether or not overheads, labour, a percentage of profit or any other items were included in stock valuation, these, stated Mr Ravenhill, should be disclosed as a note to the accounts. The treatment of exceptional and 'non-recurring' items in published accounts could also be improved; the common practice of showing these after the trading profit or writing them off against reserves should not be permitted, he said. All expenses relating to the year should be charged for that year.

The Institute, Mr Ravenhill reminded his audience, was working on all these areas in accounts and issuing exposure drafts of standard accounting practice. Considerable emphasis was being placed on these matters 'as a means of the Institute putting its own house in order before anyone else attempts to do so for it'.

Kevin Lenon, a member of the Society's committee, *facing camera*, talks to Professor B. B. Goodman, C.P.A., of the University of Hertford, Connecticut, and David Wexler, President of the Society of Accountancy Students at Hertford, *left*, together with John Underhill, B.A., Vice-Chairman of London CASS.

Key ratio

The function of management, said Mr Colin Grey, F.C.A., a manager with Deloitte, Robson, Morrow & Co, speaking on 'Finding out about the present', was to balance the satisfaction of three groups of people: suppliers and customers, investors, and employers. There were, of course, conflicts within each of these groups, he said. The key management ratio is 'what we achieved over what we intended' – the success of management is the extent to which they achieved what they set out to achieve.

Mr Grey opened his talk by asking the simple question 'What is a company?' The Companies Act presumed it to be a body of shareholders but a company had much wider aspects – it comprised a group of people with many common interests only one of which was money. They were not all, he emphasized, primarily concerned with the function of money. For example, the company's affairs involved selling and marketing; both fulfilled their respective roles with good effect, but without regard to the basic function of the company's money. The function of management was to ensure that the economics of projects were kept to the fore. Only through this simple, but in practice, not easy expedient, said Mr Grey, would the satisfaction of customers, investors and employers be met.

No £ sign

'Who', he asked, 'put the pound sign into accounting? In life we can all give a good account of ourselves without mentioning money.' It is the accountant, said Mr Grey, who put the pound sign there and no one else

Mr Geoffrey B. C. Hughes, M.A., F.C.A., course chairman, *left*, with Mr Colin Grey, F.C.A., one of the speakers, and the Rev. E. Garth Moore, M.A., Fellow of Corpus Christi.

has asked him to confine his accounting to money terms. Profit to capital employed can be interpreted in many ways. Having established our ratios, it can be compared with companies in the same industry. This tended to get more difficult each year with the trend towards amalgamations and conglomerate organizations making it difficult to find true comparisons.

A talk orientated, as it turned out, very much round Mr Grey's address was given on 'Marketing' by Mr Tancred Agius, of Thomson 'Yellow Pages'. It proved to be a stimulating approach to the role of sales and marketing and the involvement of the accountant.

Reveille

It needed someone to put across with effectiveness at 8.30 p.m. a talk aptly entitled 'Waking up accountants' following Guest Night Dinner in Pembroke Hall on Friday evening. This, Mr Hugh O'Neill, A.M.I.Q., A.M.B.I.M., a consultant with Deloitte, Robson, Morrow & Co, fully succeeded in doing through a very rapid and informative description of the variety of inferences of job design.

No one fell asleep because of the hour or the excellent dinner just consumed because, in addition to good delivery, he ensured complete audience participation through quick-fire questions as to the classification of primary importance his audience placed upon the requirements and context of jobs. Security, reward, achievement, interest and status were the five that emerged in answer to his questions. This all pointed to an interesting example of just what people wanted in their work. 'We have given people', said Mr O'Neill, 'tasks, not jobs, resulting in a fragmented industry.' This was, to a great extent, he said, one of the main causes of poor output and a lack of real interest in the job. 'Much more direct involvement is needed today than ever before.'

A novel feature of the course was a business game played on Saturday morning. The game, known as Q-stacks, was a significant part of the course devoted as it was to simulation of industrial relations of an engineering company which produced and sold Q-stacks. It resulted in giving members a very clear insight into management/employee relations. Members were divided into teams which in turn were sub-divided into managers and workers, each with a part to play in the total production effort. Many teams suffered prolonged periods of wage negotiations, while others had few labour troubles. All the workers and shop stewards – and even some of the managers! – obviously enjoyed every minute of the game.

On the ball

The final lecture was given on Sunday morning when Mr Robert May, A.C.A., a manager with Deloitte, Robson, Morrow & Co, spoke on 'Finding out about the future'. He wondered whether accounting figures or a crystal ball were more helpful in preparing profit forecasts in a merger or take-over situation. The need for meaningful information relating to the future of a business was never greater, he said, than in a situation where there was a merger or take-over.

Mr May, who based his lecture on a case study, stressed the emotional aspects and outside factors often rampant in a take-over situation. It was therefore essential that the accountant 'looked behind' the figures – 'the worth of the take-over situation must be assessed'. In assessing the value of a company, profit forecasts were critical, he said. It was essential for the accountant in take-over and

Coffee break for members of the course.

merger situations to introduce more science in the preparation of profit forecasts. In this regard he outlined in some detail the City code on take-overs and mergers.

Following this lecture there was an informal and interesting talk by Professor B. B. Goodman, C.P.A., of the Department of Accounting, University of Hertford, on the education and training of accountants in the United States. Professor Goodman, together with David Wexler, President of the Society of Accountancy Students at the University of Hertford, attended the course to observe (in part) the system of training articled clerks in the United Kingdom. They have already had discussions with Mr C. Evan-Jones, Secretary of the Institute, and Mr W. M. Allen, Secretary of the Institute's Education Committee, as well as with other members of the secretariat and members of ACASS.

As on many previous occasions, this year's course was again chaired by Mr Geoffrey B. C. Hughes, M.A., F.C.A., who showed all his usual skill in co-ordinating the group discussions and in introducing the lecturers. He presided at guest-night dinner in Corpus Christi when the Rev. E. Garth Moore, M.A., gave an account of the history of the College, and also presided at the guest-night dinner at Pembroke on the following night when Dr J. C. R. Turner, PH.D., spoke on the history of Pembroke.

It is sad to record that this is the last course which Joyce Taylor, of the Society's secretariat, will attend: over the years she has played a prominent part in the organization of the course. She leaves the Society for a new job at the end of this month.

ARTICLED SERVICE AN ANACHRONISM?

THE Reading Branch of London CASS held its symposium on 'Articled service an anachronism?' at Reading University on March 19th. At the opening session, Peter Pennington-Legh, Branch Chairman, stated that the object of the symposium was to discuss the situation as those present saw it regarding the question of articled service, and whether the principle should be subject to amendment or replacement.

He pointed out that the Law Society, through the Ormerod Committee Report, had indicated that within 10 years, articled service as at present known in the Law Society would cease, and he believed that the accountancy profession would be unable to withstand the fundamental changes of likely graduate entry in the future and the diminution of the historical justification for the retention of articles.

Mr A. G. Thomas, F.C.A., a member of the Council of the Institute and chairman of the Articled Clerks Committee, stated that so far as he was concerned, transferability of articles was a fact. He said that a member of the Institute who accepted a transfer of articles without first inquiring as to whether or not the consent of the existing principal had been obtained could make himself liable to disciplinary action.

Mr Thomas went on to say that although there were complaints about the current system of articles, at the present time no evidence had emerged that there was any suitable or satisfactory alternative.

Mr I. S. McKintosh, of the Law Society, explained briefly the results of the Ormerod Committee deliberations and stated that it would appear that the Law Society had committed itself to a system of training by means of intensive instruction courses and then, before admitting a qualified solicitor, allowing an 'associate solicitor section' to be introduced which would enable the intending solicitor to get practical experience of what he had learnt in theory.

Mr W. M. Allen, M.A., LL.B., Secretary of the Education Committee of the Institute, stated that in his view there was no reason why the Institute should not have a system of training such as existed within the Society of Incorporated Accountants prior to its integration with the Institute in 1957. Under that scheme there was an articles system whereby a five-year training was the rule, but other candidates of the academic attainment required could undertake a 'by-law' course under which they served six years (originally nine years) before being admitted to membership, taking the normal exams as with the articled clerks.

Principal speakers, *left to right:* Captain C. V. Stopford, Information and Liaison Officer of Foulks Lynch; Mr W. M. Allen, M.A., LL.B., Secretary of the Education Committee of the Institute; Mr A. G. Thomas, F.C.A., Chairman of the Articled Clerks Committee; Mr Roy A. Whitman, F.C.A., Vice-President of the Reading Branch and chairman of the meeting, and Mr D. L. Barnes, President of the Reading Branch.

Future needs

Mr Allen further made the point that the system of training in accountancy at the moment had to be borne in mind with regard to the demand for future chartered accountants and also what these accountants should or should not be doing. His own view was that whilst the Institute under its training scheme was producing competent technicians, it was not doing sufficient to encourage the 'high flier'.

On the question of 'O'- and 'A'-level entrants to the Institute, he stated that the main objection to 'O'-level students was that over the past years it had been proved that the fall-out rate of the students was increasing and that

the rate of success was demonstrably lower than that of 'A'-level entrants and graduate entrants.

Captain C. V. Stopford, Information and Liaison Officer of Foulks Lynch, stated that instructions had gone out to test tutors to be more specific with regard to their criticisms and suggested corrections. He also dealt with a point raised by a conference member regarding the attitude of his company to those students who failed their exams at various attempts, and reassured him that there was no discrimination against students taking or re-taking exams under the guarantee section of the courses.

Stephen Parry, B.A., A.C.A., Treasurer of ACASS, expressed the opinion that the principal/clerk relationship should be abolished and that it should become more of a firm/clerk relationship. In support of this view he stated that in large firms in London, whilst a clerk might technically be articled to any one of many partners it was only on rare occasions that he saw him; nevertheless, he was still trained quite efficiently, and often very efficiently.

He believed the Institute should be far more involved in the training of its articled clerks; there should be some revision of the training contract which would possibly enable the present restriction of mobility to be eased and whilst Mr Thomas might say that articles were transferable, that in fact did not appear to be the case. Nevertheless, he himself was not opposed to any form of contractual relationship between a principal and a clerk, or a firm and a clerk, provided that there were safeguards to both.

Computer Fraud Warning

Sir Henry Benson's Views at Datafair 71 Dinner

'GREAT computer frauds have yet to be committed', warned Sir Henry Benson, G.B.E., F.C.A., at the Datafair 71 dinner held on Thursday of last week at the Albany Hotel, Nottingham.

Proposing the toast of the British Computer Society, he expressed the view that the industry should take external as well as internal auditors into their confidence so that every precaution – technological and operational – could be used to diminish the possibility of computer fraud.

Sir Henry paid tribute to the energetic efforts of the Society's President, Mr Alex d'Agapeyeff, F.C.A., F.B.C.S., in furthering the building of a new profession and assured him that his progress had been watched 'with sympathy' by the older professional bodies. The discipline of professional standards and ethics must bite, said Sir Henry, or there would be no profession.

In the operational field, jargon was to be deprecated because it so often made a simple thing sound complex. The real genius was he who made a complex situation appear simple. This, in the computer industry, would necessitate the education of lay people in electronic data processing techniques. He praised the Society for organizing such an impressive week-long event as Datafair.

A new profession

Mr d'Agapeyeff, in his reply to the toast, expressed his trust in the computer industry to support the British Computer Society in its effort to establish a new profession. The Society had accepted the role of establishing professional standards and representing the industry, he said, and added that it had been left to the Society to make representations on such vital public questions as the establishment of professional standards, the deliberations of the Younger Committee on privacy, the question of safeguards for the public, and the quality of proposed legislation on computing.

It was up to the industry, stressed Mr d'Agapeyeff, to ensure that its professional body remained viable and effective so as to demonstrate clearly that society's interests would best be served by a thriving and responsible technology in this field.

The dinner, attended by 400 representatives from scientific, industrial, and accounting spheres, was the culminating social event of Datafair 71 although industrial presentations and exhibitions continued until noon the following day.

One of the presentations pertinent to Sir Henry's remarks was of input security by Kenrick and Jefferson Ltd. Always a part of the systems print market, this company enjoys a reputation as a leader in the field of optical mark recognition (OMR), optical character recognition (OCR) and check-digit number documents. Special attention is paid to safety

Sir Henry Benson speaking at the Datafair 71 Dinner.

factors to ensure error-free data collection and with it attain a highly desirable, but often elusive, 'clean-input'.

Speed, efficiency, cost-effectiveness and profitability are the aims of electronic data processing, and these were demonstrated in diverse ways at Datafair over the breadth of Nottingham University's extensive campus. For example, Computer Information Centre demonstrated their advisory implementation division's work necessitating considerable expertise in visible record computers. Achievements to date included one of the most cost-effective banking systems in the United Kingdom – albeit a Commonwealth bank. CIC claimed that from a VRC costing less than £10,000 a set of fast invoicing programs could produce 500 fully detailed invoices per day with an average of eight lines each.

Key-processing

The key-processing demonstrations on the Computer Machinery Co's stand used a 'live' four-key station system which emphasized the ability of a computer-controlled keyboard data entry technique to accelerate input by cutting data preparation costs. Dataprint methods were also a main feature of CMC presentations and these stressed how computer-controlled print-out systems could reduce costs at the 'other end' of an electronic data processing complex by removing the bulk print load from the user's computer.

Software, naturally, was a subject dealt with at all Datafair activities and Computer Co-operatives Ltd presented an idea in three areas of software marketing: total marketing, installation and maintenance of packages. The company offers a complete evaluation service; if a software package cannot be supplied, Computer Co-operatives undertake to carry out an evaluation on available software and develop a suitable package.

One of the packages presented at their stand was 'Foresight' which provides financial information for management. It produces financial reports ranging from simple profit and loss accounts and monthly budgetary control reports to complex consolidated company reports. Its use is not restricted to any particular industry, and it has been applied, for example, to property development, hire-purchase, shoe manufacturing, and even to merger negotiations.

The package is programmed with English language-type commands and in terms that a manager might use in describing to an accountant figures that he wants calculated. It is also marketed by Time Sharing Ltd, but whereas Computer Co-operatives operate the package on a batch processing method, Time Sharing use a terminal to central processor method, the terminal being at the user's office. As regards price, the batch version of 'Foresight' can be bought from Computer Co-operatives at a cost of about £2,500 and the Time Sharing service would cost approximately £14 per hour.

Honeywell took the opportunity at Datafair to give the first-ever public demonstration of the recently introduced 'Mark II' and 'Network' time-sharing services unveiled in January. The Mark II service is based upon the extremely powerful facilities of a large-scale G-600 Series computer and allows users to handle very big files to solve complex computational problems. The 'Network' service, which was introduced simultaneously with the Mark II, is based upon the same G-600 Series computer, and for the first time ever permits the integration of trans-Atlantic time-sharing.

Software programs

A most interesting series of sessions was presented by members of Touche Ross & Co, management consultants, on a software package which has been used extensively in the stockbroking field. It was developed by Touche Ross & Co, Chartered Accountants, and is a group of software programs which do, in fact, permit the extraction, processing and presentation of financial and other information from existing computerized data files without the necessity of additional programming effort.

During the past two years, the system, designated by the trade name 'Strata', and designed to run on an IBM 360 computer, has been extensively used by Touche Ross's audit staff, both in the United States and the United Kingdom, to produce from computerized cards such figures and reports that are necessary for the successful completion of audits.

Financial planning

In his symposium address on 'The management of finance – the role of the computer', Mr J. Anthony Burton, F.B.C.S., chairman of the Business Management Group of the British Computer Society, remarked that some 42 per cent of industrial and commercial data processing installations were controlled by financial or accounting departments, yet their systems were generally noteworthy for the lack of facilities to produce financial planning information. It was to be hoped that the various time-sharing services available would satisfactorily amend this situation.

As if providing an endorsement to this, the theme for NCR presentations was the interface of man and machines in solving industrial and commercial problems and they showed how their activities encompassed the total systems support of information processing from source data capture to effective business computing.

A success

There were no main computer installations at Datafair but a considerable number of terminal links to processors elsewhere in the country, and needless to say a wide range of peripheral equipment was on show. Most of all it was a splendid opportunity for the gathering of a large number of people interested in electronic data processing hardware and services to listen, discuss and observe.

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Notes and Notices

PROFESSIONAL NOTICES

BANNER, SPENCER, WALKER & MOORS, Chartered Accountants, of Liverpool, announce that Messrs W. BAINBRIDGE, F.C.A., W. A. BATES, F.C.A., and J. HAY, F.C.A., were admitted into partnership on April 1st, 1971. From that date the practice will be carried on from 80/86 Lord Street, Liverpool 2.

BAXTER, NICHOLAS & CO, Chartered Accountants, of 6 Egypt Street, Warrington, Lancs, announce that, in order to reduce his commitments following his recent illness, Mr GEOFFREY B. BAXTER, F.C.A., retired from full-time practice with effect from March 31st, 1971. Mr BAXTER will, however, be continuing to be associated with the firm as a part-time consultant.

COOPER BROTHERS & CO and COOPERS & LYBRAND announce that Mr MICHAEL BARRIE CURLEWIS has been admitted to partnership in Teheran, Iran.

DELOITTE & CO announce the admission into their London partnership on April 1st, 1971, of Mr L. W. LAW, B.COM., F.C.A., and Mr H. J. J. O'REILLY, F.C.A., who have been senior members of their London office staff for some years.

RALPH HOLMES & CO, Chartered Accountants, announce that Mr STANLEY SMITH, F.C.A., who has been a partner since 1928 retired on March 31st, 1971.

HOPE, AGAR & CO, Chartered Accountants, announce that Mr E. J. ROFF, who has been associated with the firm for 42 years and a partner since 1948, retired on March 31st, 1971.

HOPE, AGAR & CO, of London, BRANNAN WHITE & CHARLTON, of London, and RALPH HOLMES & CO, of Leeds, announce that they are amalgamating their practices with effect from April 1st, 1971. The partners in the combined practice, which will be carried on under the name of HOPE, AGAR & CO, Chartered Accountants, from Epworth House, 25/35 City Road, London EC1Y 1AR, and Oak House, 431 Meanwood Road, Leeds LS7 2LW, will be Messrs J. W. BELL, F.C.A., E. F. TUFFREY, F.C.A., W. H. LAND, M.B.E., F.C.A., A. J. HOLLIS, F.C.A., R. B. ROBINSON, F.C.A., T. P. G. NEALE, A.C.A., G. E. RUDD, F.C.A., N. SHARPLES, F.C.A., P. D. MCDERMOTT, B.A., F.C.A.

LOUIS NICHOLAS & CO, Chartered Accountants, of Scottish Equitable Chambers, 19 Castle Street, Liverpool L2 4SY, announce that their partner, Mr HAROLD GEORGE BAYLEY, F.C.A., who joined the firm's staff over 47 years ago and who became a partner in 1961, retired from the partnership on March 31st, 1971. He has also retired from the associated firms of HUGH JONES & LEWIS and BAXTER, NICHOLAS & CO.

MITCHELL, DOWD, WALTON & CO, Chartered Accountants, of Liverpool, announce that Mr S. C. THOMAS, F.C.A., was admitted into partnership on April 1st, 1971.

MORRIS, CROCKER & CO, Chartered Accountants, announce that as from March 31st, Mr H. J. BARRETT, F.C.A., has retired from the firm after an association of some 47 years, and that Mr GORDON J. WOOD, A.C.A., was admitted as a partner as from April 1st, 1971. The practice will continue under the same style and at the same addresses.

PEAT, MARWICK, MITCHELL & CO announce that Mr G. A. MILNES, C.A., Mr C. G. SNEATH, F.C.A., and Mr I. D WATSON, C.A., have been admitted as partners in their London office with effect from April 1st, 1971.

PIKE, RUSSELL & ASSOCIATES, Management Consultants, announce that Mr P. J. LODGE, A.C.A., and Mr W. J. HOLLIS, A.C.A., have been admitted to the partnership with effect from April 1st, 1971.

PIKE, RUSSELL & CO, Chartered Accountants, announce that Mr P. J. LODGE, A.C.A., and Mr W. J. HOLLIS, A.C.A., both of whom were senior members of the staff, have been admitted to the partnership with effect from April 1st, 1971.

THOMSON MCLINTOCK & CO, Chartered Accountants, Aberdeen, and G. & J. MCBAIN, Chartered Accountants, announce that at April 1st, 1971, they merged their practices. The combined practice will be carried on under the name of THOMSON MCLINTOCK & CO, Chartered Accountants, at 11 Golden Square, Aberdeen AB9 1JE. The partners are Messrs JOHN WALDIE, C.A., STEVEN L. HENDERSON, C.A., JOHN L. KIRKPATRICK, C.A., MATTHEW D. MCPHAIL, C.A., JOHN MCBAIN, C.A., A. GORDON MCBAIN, C.A., and J. L. ATHOL MUNRO, C.A.

THOMSON MCLINTOCK & CO, Chartered Accountants, of 216 West George Street, Glasgow C2, and 25 St Andrew Square, Edinburgh, announce that Mr R. T. YOUNG, C.A., and Mr JOHN A. G. KERR, C.A., retired from the partnership on March 31st, 1971.

APPOINTMENTS

Mr S. A. Grimes, A.A.C.C.A., an associate director of the National Cash Register Co, has become financial controller of the company, and Mr P. McNelly, F.C.A., has become chief accountant, following a new administration structure at NCR's head office to be led by Mr R. C. Bedford, F.C.A., NCR's company secretary.

Mr Patrick E. Cooper, A.C.A., a director of Clive Holdings, has been appointed chief executive of the company. Mr J. Liddell-Simpson, F.C.A.,

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VALUERS OF PROPERTY ASSETS

deputy chairman of Clive Holdings, has relinquished his directorship of the company and of Clive Discount Co.

Mr J. M. Howard, F.C.A., has become a director of Trouw & Co (Great Britain).

Mr John S. Cooke, C.A., has been appointed financial director of Badger Ltd.

Mr J. S. Cooke. Mr P. E. Cooper.

Mr Charles Merry, F.C.A., F.C.W.A., secretary and chief accountant of Fluidrive Engineering Co, is to become an executive director of the company with effect from April 15th.

MAYFAIR TAX DISCUSSION GROUP

The next meeting of the Mayfair Tax Discussion Group of the London and District Society of Chartered Accountants will be held on Wednesday, April 14th, at Devonshire Street House, 30 Devonshire Street, London W1, starting at 6 p.m. Mr Derek Cox, F.C.A., of Stoy Hayward & Co, Chartered Accountants, will be leading a discussion on certain aspects of capital gains tax legislation in relation to property transactions.

Full details may be obtained from Mr Alan Gilbey, F.C.A., Shears and Gilbey, Chartered Accountants, 55 Queen Anne Street, London W1M 0EJ.

ASSOCIATION OF UNIVERSITY TEACHERS OF ACCOUNTING

At general meetings of the Association of University Teachers of Accounting held at Darwin College, University of Kent, on Tuesday, March 30th, a new constitution was adopted, the main new provision of which is to open membership to 'any person who is engaged in teaching accounting or a cognate subject within the United Kingdom or the Republic of Ireland on a course leading to the award of a degree'.

The following officers were elected at the meeting to serve for the ensuing year:

Chairman: Professor B. V. Carsberg, M.SC.(ECON.), F.C.A., University of Manchester.

Vice-Chairman: Professor J. F. Flower, B.SC.(ECON.), A.C.A., University of Bristol.

Secretary/Treasurer: Mr E. A. Lowe, B.SC.(ECON.), F.C.A., Manchester Business School.

Conference Organiser: Mr F. A. Bailey, F.C.A., University of Manchester Institute of Science and Technology.

News-Review Editor: Mr K. Wallis, University of Manchester.

The retiring chairman, Professor P. A. Bird, B.SC.(ECON.), A.C.A., University of Kent, and one representative of each of the regional groups in Scotland, Northern England, and Southern England will also serve on the Committee of the Association.

INSTITUTE OF TAXATION'S CAMBRIDGE CONFERENCE

Over 200 members of The Institute of Taxation attended the spring residential conference at Trinity College, Cambridge, from March 26th–28th. Mr Desmond F. Airey, A.C.A., F.A.C.C.A., F.T.I.I., chaired the conference dinner and in toasting the guests welcomed Mr Cecil Parkinson, M.P., F.C.A., and Mr P. M. Threlfall, managing director, Pye of Cambridge Ltd.

In his reply to the toast, Mr Parkinson commented on the suitability of university surroundings for the study of taxation and then expressed the hope that the Chancellor of the Exchequer would grasp the nettle of establishing a more rational tax system with incentives for all. Mr Threlfall similarly called for tax reform and also for discussion by the Government of proposed legislation with such bodies as The Institute of Taxation.

The President of the Institute, Mr D. J. Pyne-Gilbert, F.C.A., F.T.I.I., spoke of the need for conferences to bring members together for discussions of taxation problems with specialists. As 2,000 students had enrolled during the past year a conference specifically for them would be held at Cambridge in August.

Mr Pyne-Gilbert emphasized the aim of the Institute's examinations to ensure the qualification of members to advise the general public. He took strong exception, however, to advertising by members generally as it was not in the public's interest.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

'What time for God?' was the subject of a Fellowship discussion on March 23rd, under the chairmanship of Mr Douglas Combridge, F.C.A. The first questions were: 'How do we draw the line between God's time and time for other purposes? Is there such a line to be drawn?'

Speakers agreed that we were accountable to God for all our time, and life could not be divided into independent compartments; we lived in time as distinct from eternity. But we had obligations to others, too, e.g., employers and family, and we would not be right to steal time from them, even for purposes that were more obviously God's own. It was easy to overload our time with Christian work so that not only that work suffered but also our other obligations. This was an ordinary problem of management, and God was entitled to good management as well as our good works.

We should organize our work so that we developed the best of our potential to meet all our obligations; this organization was necessary also for ourselves in making provision for private and public prayer, worship and Bible reading.

There was lively discussion, too, on keeping the Sabbath Day. Starting from the instructions to keep the day holy and to do no work, stress was laid upon the personal nature of the directions. These involved both devotion to God and recreation: it was possible by over-doing one of these functions to damage the other; by excessive devotion to church work Sunday could become a heavier burden than a weekday, or by filling too much of the day with sport and amusement, its holiness could be impaired.

It was suggested that under modern civilized conditions, a five-day working week, with one day for physical and mental recreation and one day for devotion, might be the appropriate plan.

At the annual general meeting of the Fellowship held before the discussion meeting, the following officers were elected for 1971–72:

Chairman: Mr Robert Ewan, F.C.A.

Treasurer: Mr Wilfred Mortimer, F.C.A.

General Secretary: Mr Allan Plumpton, F.C.A.

Committee: Mr David Andrews (student member), Mr Michael Derenburg, A.C.A., Mr William Ferris, F.I.A.C., M.I.O.M., and Mr Michael Tagent, A.C.A.

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Institute's Time of Reckoning

THE difficulties which have beset The Institute of Chartered Accountants in England and Wales in recent months are sadly reflected in the presentation of the Council's annual report for 1970. Gone are the glossy paper, the pictorial charts and graphs, the two-colour layout which we commended on this page four years ago, and which lifted the reports for 1966–69 such an immeasurable distance above their uninspired predecessors.

By a process of compression and excision, coupled with the use of smaller type, the total presentation has been ruthlessly cut from 40 to 24 pages. Truly the female figure representing ECONOMY has arisen in her wrath and laid about her with her rod to some purpose; and the bifurcated implement in her sinister hand has become, not dividers, but a pacing-stick.

It is inevitably the out-turn of the year's revenue account which first attracts attention – a deficit of all but £210,000 on normal activities plus a further £159,000 exceptional expenditure. Several of the major increases are directly related to the rebuilding and occupation of Chartered Accountants' Hall, including (to mention only a few of the added burdens) £30,000 in rates, £18,000 in heating, lighting and housekeeping expenses, £74,000 in interest and £26,000 depreciation. Like many freeholders before it, the Institute has discovered that the acquisition and occupation of a prestige building is an event of lesser significance than the continuing problems of its upkeep; but in the Institute's particular circumstances, as the President made clear at last October's special meeting (*The Accountant*, October 29th, 1970), there was no obvious or acceptable alternative.

The profession has often enough been urged to come to terms with the computer, and in this context the Institute's experience has been a less than happy one. We referred in a 'Current Affairs' note on January 14th to the less-than-convincing return on an outlay, to the end of 1969, of £43,000; and it now appears that the 1970 experience has cost a further £85,000, making a total to date of £128,000. In the words of the report, 'the computerization of members' records has proved far more costly than anticipated', due to an under-estimate of 'the scale and complexity of the task involved in creating 70,000 computer records accurately'. The difference between this 70,000 and the Institute's membership (at January 1st, 1971) of 49,705 is accounted for by the fact that the system provides record cards for each firm as well as each member.

In reviewing the 1969 report (*The Accountant*, April 16th, 1970) we remarked upon the re-allocation of two substantial items in the column of comparative figures. Further and trivial re-allocations have occurred in reproducing the 1969 figures for comparison with 1970, for instance £1,319 from 'Travelling and subsistence' to 'Hospitality' and £455 from 'Miscellaneous' to 'Postage, carriage and telephones'. Staff advertising (£4,095 in 1969) has now been separated from advertising for other purposes and added to staff introductory fees, to give a total charge of £13,200 for staff procurement over the past two years. Nobody doubts that the Institute requires to be adequately served in both the quantity and (more important) the quality of its staff, but there are indications that a comparatively high staff turnover – and not confined to the lower echelons, at that – has been a feature of life at the Institute in recent years.

The 40 per cent increase in subscriptions as from January 1st, 1971 (*The Accountant*, October 1st, 1970) was never represented as more than a holding operation to restrain the Institute's deficit within bounds, and the final paragraph of the President's statement refers, obliquely but ominously enough, to the early prospect of a further increase, combined possibly with 'the transfer of some further major activities to a self-financing basis'. It is not immediately obvious what such activities may be in mind, as courses and (newly in 1970) the appointments service are already organized on this basis, and the *List of Members* is to follow suit in 1971. Possibly some technical services could become the subject of a specific charge, or the *Members' Handbook* might be divided into sections of general application (for free issue as at present) and more specialized importance (available for purchase on request).

The Institute has benefited by an anonymous donation of £25,000 to mark Sir Ronald Leach's presidential year (1969–70), the capital and revenue to be used within the general charitable purposes of the Institute under Sir Ronald's guidance. A grant of £5,000 has been made from the R. G. Leach Fund in accordance with these terms towards the initial expenses of launching the Institute's new quarterly publication *Accounting and Business Research*.

There have been indications for several months past of a tougher attitude by the Institute's Council towards standards of professional work. Quite apart from the activities of the Accounting Standards Steering Committee and the recent statement on auditors' responsibilities in relation to definitive standards of practice ('Qualified Reports – By Order', *The Accountant*, March 11th), the President now considers that 'more positive measures will need to be taken in cases of unsatisfactory professional work', some of which have been brought before the Investigation Committee.

In the 1967 annual report, the Council of the Institute expressed the function of the Professional Standards Committee as 'to be helpful'; emphasizing that it had no disciplinary purpose or powers; and, as we remarked on this page in our issue of November 2nd, 1968, the use of disciplinary powers to redress unsatisfactory work must savour of closing the stable door after the horse has bolted. There is, nevertheless, a limit to what can be achieved by exhortation and friendly persuasion, and it is hardly coincidental that the Institute's secretariat structure groups the Professional Standards and Investigation Committees together. In cases of serious shortcoming, this channel of communication is now being used.

The continued heavy expenditure on recruitment (which increased from £40,000 in 1969 to £55,000 in 1970) is vindicated by the continuing rise in the number of articles registered to 4,704 (1969, 4,232) and in the increasing number of candidates for articles with higher educational qualifications. Subject to transitional arrangements for 'O' level passes, the Council has already declared its intention (*The Accountant*, October 15th, 1970) of requiring a minimum standard of two 'A' level passes for all prospective articled clerks as from July 1st next; nearly three-quarters of the 1970 intake were of this standard, including a record number of graduates from universities of the United Kingdom and the Irish Republic. These newly-articled clerks will benefit from the Council's stated intention to improve still further the standards of practical training, not forgetting the skills needed by industry, and to inquire more closely into the range of experience which a firm may be able to offer.

We deliberately refrain from commenting further upon the disastrous outcome of the integration scheme, which is now seen to have cost the Institute some £62,000 over the past two years. The immediate reactions have already been expressed, and the long-term effects are yet to be encountered.

The Institute is not bankrupt; it has a distinguished past and a potentially great future, but there is plainly a need for those members who may at present regard their membership simply in the light of a marketable qualification to participate more fully in Institute affairs. From this standpoint, the impending review of the constitution of the Institute, including the machinery for appointment to the Council and to local organizations, is of fundamental importance and will be watched with great interest both within and outside the profession.

The President's statement, together with extracts from the report, is reproduced on other pages in this issue.

CURRENT AFFAIRS

Annual Award Winners

THE two companies which have been selected to receive *The Accountant* Annual Awards for 1971 are:

TRANSPORT DEVELOPMENT GROUP LTD
and
CROWN HOUSE LTD

The reports and accounts of these companies were judged the best of nearly 1,100 entries for this year's Awards.

Each year's Awards are for reports and accounts presented at company annual meetings held during the previous calendar year. The Award to Transport Development Group, therefore, is in respect of their report and accounts for the year to December 31st, 1969, presented at the company's annual general meeting on April 24th, 1970.

Crown House receive the Award for 'smaller' companies requiring less complex accounts than those of a large group, in respect of their reports and accounts for the year to March 31st, 1970, presented at the company's annual general meeting on September 10th, 1970.

The Awards will be presented by the Rt Hon. Lord Shawcross, P.C., Q.C., at Merchant Taylors' Hall on May 6th, in the presence of a distinguished company representing the City, the professions, commerce and industry.

The Awards, which are of equal rank, each take the form of a pair of silver wall sconces inscribed with the name of the winning company and specially designed with ancient and modern symbolism depicting commerce and accountancy. They are made annually to companies whose shares are quoted on a recognized stock exchange in the United Kingdom, in relation to the form and content of their published reports and accounts; particular importance is attached to the adequacy of the information given and its presentation.

Computers a Management Problem

A COMPUTER – any computer, whether it is contained in one metal box or fifty – can always be analysed into a central processing unit, and input and output peripherals. The only other ingredient is people, and they are sometimes a problem.

Given reliable prime data, and decent programming and operating, a computer seldom generates undetected mistakes; unsatisfactory output from any processing medium (human beings included) is more often a reflection of poor input. In this situation a computer, loyally machining what gets presented to it, may actually make matters worse, so that an ill-advised computerization has been likened to 'stuffing banknotes into a large incinerator'.

These are amongst the views expressed by Mr James Allan, F.C.I.S., in *Computers and the Administrator*, published recently by the Chartered Institute of Secretaries as No. 2 in its 'Administrators handbook' series (65p). Mr Allan, a past chairman of the Glasgow branch of the British Computer Society, explains how computers work and how management can get the best value from them, for the benefit of company secretaries and senior administrators who are not primarily concerned with computers in their day-to-day work, but who sometimes find it necessary to contribute to or to communicate with a computer project.

Though some computer installations have been acknowledged as 'disastrous' and others have settled down to 'grudging mediocrity', computers are not heaps of electrical junk; nor are all computer salesmen rogues, nor all programmers incompetent quacks, though individual examples could doubtless be found. Mr Allan does not hesitate to lay the problem at management's door: there is, he says, 'no such thing as a computer system, but only a system which happens to use, or misuse, a computer'. Save by evil chance, the computer application in which management takes an active and intelligent interest is a good one; a bad computer operation is symptomatic of bad management.

International Study on Corporate Taxation

ACCOUNTING is an international language, and taxes an international problem. Thus it comes as no surprise to find that the latest publication of the Accountants' International Study Group (on which the three Institutes of Chartered Accountants in the UK are jointly represented with the American Institute of Certified Public Accountants and the Canadian Institute of Chartered Accountants) is devoted to 'Accounting for corporate income taxes'.

The position has been complicated in all three countries, not only by timing differences between accounting and tax assessment periods, but also by permanent differences arising from the fact that revenue and expense items which are commonly included in the accounting determination of profit or loss do not coincide with those which may be assessable or allowable for tax purposes. In the UK there has been an encouraging uniformity of practice in the treatment of taxation in accounts, more particularly since the English Institute issued its recommendation on the subject in 1958 (*The Accountant*, November 22nd, 1958). In the United States and Canada, however, there were at least two alternative bases of accounting

for corporate taxation in general use prior to 1968, and the use of different bases in otherwise comparable circumstances often resulted in significantly different income figures – each of which was claimed, of course, to present fairly the results of operations for the period.

In the allocation of income tax expense to accounting periods, the American and Canadian Institutes have hitherto favoured the 'deferred' method, under which the tax effects of current timing differences are deferred to future periods in which the timing differences reverse; the tax effects of transactions which increase or reduce taxes currently payable are treated as deferred charges or credits. The UK recommendations, on the other hand, favour the 'accrual' method under which the credit balance arising from tax allocation to other accounting periods is regarded as a liability. The accrual method is in fact widely used in the UK, although its validity has been challenged on the grounds that this credit balance, even if it is a liability, is one whose payment is normally so long deferred that the amount may properly be regarded as part of shareholders' equity.

Following its comparison of the current recommended practice on accounting for corporate taxes, the AISG concludes that the allocation of tax expense to relevant financial periods would be almost identical under the accrual or the deferred method so long as tax rates remain constant, but that changes in tax rates may significantly affect the reported income for the year under the accrual method. On balance, the group prefers the deferred to the accrual method, the accumulated balances being regarded as deferred credits or debits rather than as accrued liabilities or assets.

Solicitors' Remuneration

ONCE again the National Board for Prices and Incomes has recommended significant changes in the basis for remunerating solicitors. In its third report on this topic – *No. 164: Remuneration of Solicitors* (Cmnd 4624 HMSO, 50p) – the PIB repeats its proposal for increasing the charges for certain legal work, in particular County Court and Legal Aid work, but reducing the fees for conveyancing overall.

In its earlier, i.e., second, report the Board estimated that, in consequence of its recommended changes in the charges of solicitors, conveyancing income would have been reduced by some £2·5 million per annum, but, on balance, the total income would have risen by about £1 million. Since that report some increases in charges have been made; in particular, the fees for the conveyancing of lower value property have been raised substantially above the Board's recommended figure, but there have been no reductions.

The PIB has now undertaken a detailed time cost survey of conveyancing and other related studies. Although the coverage of the survey was not as wide as the Board had hoped, it received some 900 records from 97 practices of broadly similar sizes. From this survey it emerges that in all kinds of conveyancing the time spent increased consistently with the value of the property; that work for purchasers was generally less profitable than that for vendors; that the average cost of a conveyance, including the principal's average profit, was only 55 per cent of the total charge. These rates of profit seem to be even larger than those observed in the 1966 survey by the PIB, but the Board does not consider – in the light of all the available evidence – that this is the case. In particular, while conveyancing is profitable, the Board states that it has no evidence to suggest that the levels of remuneration in the profession as a whole are too high.

The conclusions from the latest report lead the Board to reiterate its recommendations for some reductions in conveyancing and mortgage charges amounting to about £6 million which will help most house purchasers. Against this reduction the profession has increased income from higher charges elsewhere amounting to £5 million, but the resultant net reduction in income proposed should, states the Board, be taken in conjunction with the increases in other charges which were implemented following the second report, without any compensating reductions in fees.

National Insurance Anomaly

IT was not only Humpty Dumpty who attributed his own meaning to words. Were Carroll's dogmatic character with us today, he would doubtless find his niche in the Department of Health and Social Security.

The evasion of National Insurance and SET liabilities by the legal fiction of self-employment has reached proportions which government is no longer able to ignore; and, whilst it is most commonly associated with labour-only subcontracting in the building industry, it has also spread more recently to the provision of temporary clerical and office staff. Draft regulations now issued by the DHSS will, unless negatived by Parliament, bring into the category of 'employed persons' any workers who are introduced and paid through an agency, 'notwithstanding that they are not employed under a contract of service'. The agency is also to be treated as the employer of such persons for the purpose of liability to Class 1 National Insurance contributions.

Amongst those likely to be affected by the new measure are several hundred freelance accountants, possibly dividing their time at present between a small practice of their own and subcontract or temporary work elsewhere. There is no doubt that these men, many of them holding reputable professional qualifications, are by any other assessment bona fide independent practitioners and have been recognized as such for many years. Henceforward, if they are 'introduced' to temporary work for any one day in the week, there could be a liability to Class 1 contributions on the part of some other party who is for this one purpose deemed to be an 'employer'.

It is unhappily no novelty for government departments to attempt to invest their own practice with the force of law; but when that practice mis-describes professional men in the course of checking an abuse to which they are not themselves a party, it should be resisted. A letter on this subject appears on another page.

Irish Republic Favours VAT

VALUE added tax is to be introduced into the Irish Republic in place of the present turnover and wholesale taxes, according to a White Paper issued recently by the Department of Finance. The prospective rates of VAT are so calculated as to bring in about the same amount of revenue, i.e., £70 million made up of turnover tax £44 million and wholesale tax £26 million.

The percentages have been carefully estimated for this purpose. VAT will be levied at a rate of 5·26 per cent on those goods and services currently liable for 5 per cent turnover tax; at 16·37 per cent on items currently liable to turnover tax plus the lower (10 per cent) rate of wholesale tax; and finally at 30·26 per cent on items liable to turnover tax plus the higher (20 per cent) rate of wholesale tax.

The result of the new system will be to increase the number of firms engaged in collecting the tax by about 3,000, although the Revenue Commissioners expect that government collection costs will be only marginally increased.

THIS IS MY LIFE

Tudor Taxation

by An Industrious Accountant

WATCHING those TV stories of King Henry VIII, I began to wonder just how he amassed the funds to pay for his satins and velvets, his jewels, and his revels. Back in 1520 the population of England was about 3 million, the annual revenue about 800,000 ducats (one-seventh that of France at the time), but the island kingdom was immensely wealthy. Its reserves, in balance sheet terms, were represented by assets of solid bullion.

To transfer the national wealth into the royal coffers was a task for the taxmen. A little research has revealed their problems and their prowess.

The Tudor monarchs were greedy of gold and shrewd in acquiring it. Henry VII had accepted 745,000 crowns from France to forgo his invasion in 1492; he had hung on grimly to Catherine of Aragon's dowry when his son Arthur died; widowed at 46, he went a-wooing again where the dowries were richest. Meantime, his lawyers, Dudley and Empson, extorted punitive taxes.

His son, bluff King Hal, was more astute than his withered old predecessor. Crowned at 18, he sent Dudley and Empson to the block for 'constructive treason' two years later, a gesture which won him – naturally – enthusiastic support from his loyal people. Then he fell cheerfully on the £1,800,000 in the Treasury. The Battle of Spurs, Flodden, and the Field of the Cloth of Gold put him in the red, however, and he turned to Cardinal Wolsey for expert financial counsel.

Wolsey has gone down to history as a statesman of devious and dubious talents, but his career as a revenue commissioner has not been recognized to date. He had a hard task. The old resources of scutage, poll taxes, and forced labour were worn out; he had to innovate in a country of new prosperity, new rich merchants and nobles, and new seaborne argosies.

His first effort was not novel, but it was simple and effective. In 1523 he demanded from the House of Commons a subsidy of £800,000, to be raised by a 20 per cent tax (over twice the usual rate) on all goods and lands, divided between the counties for collection. Despite angry protests, he pushed his edict through. After all, Henry's collar of cut diamonds, his massive gold dinner-service and the three hundred halberdiers in silver breastplates had to be paid for. . . .

Two years later Wolsey launched his masterpiece, a new (and apparently illegal) tax called the 'Amicable Loan'. Not daring to assemble Parliament to discuss it, he offered to render up a third of his own personal revenues provided he could raise half as much again by way of general contributions. The citizens of London reacted with marked lack of amity, and Wolsey warned its adamant Lord Mayor: 'Resist not and ruffle not in this case, for it may fortune to cost some their heads.'

The Duke of Norfolk challenged an armed resistance group to name their captain, and was told: 'Forsooth, my lord, his name is Poverty, and he and his cousin Necessity have brought us to this doing.'

Henry sensed the atmosphere shrewdly and retreated, but he must have noticed his henchman's wealth, remembering the looted monasteries, the levies on the new bishoprics, the pension from the Emperor Charles, and the bribes that all led to the luxury of Hampton Court.

Wolsey fell in 1529 amid general rejoicing, and Henry levied 100 per cent estate duty on all his seizable property.

Accountancy in an Industrial Society

1 – Double Entry in Historical Perspective

by WILLIAM F. KISSACK, F.C.A.

Accountancy is usually looked upon as a science; as a self-balancing system in terms of the monetary unit, subject to analysis in static and dissected form, like the organs of a lifeless body. Is it not more to the point, however, to interpret accountancy as a live art of economic appraisal and presentation – an art that calls for adaptation to change in the evolutionary march of time? In the daily exercise of this art, the personality and skills of the individual performer – the trained and qualified accountant in this particular instance – constitute the decisive factors; for the essence of successful performance invariably lies in the quality of the performer.

Unfortunately, in the exercise of the particular form of human endeavour known as economics, within which accountancy, industry and banking are purposeful activities, everything is done to obliterate the personality of man the performer. Economic life today is governed by impersonal rules inherited from the Middle Ages, firmly clamped into place by superimposed statute. That this suppression of the initiative of 20th-century man is largely unwitting and unintentional in no way relieves the weight of the burden.

ACCOUNTING presentation in the double-entry form is a prominent feature of the medieval rules that are kept in force by contemporary statute. The double entry system is a device of inward book-keeping registration and outward accounting presentation that was invented in pre-industrial times; times that bear no economic relation to present-day circumstances. Yet, despite the passing of the centuries, the seeking after 'profit' in terms of the monetary unit, as revealed by the medieval double entry system, still remains the recognized aim of the present economic régime – an aim imposed by statute.

It was no historical accident that double entry came into existence during the Renaissance; nor is it a coincidence that Luca Pacioli's *De computis et scripturis*, the earliest printed exposition of double entry, was published in Venice. For here lay the cradle of seaborne commerce. Double entry, set afoot in these remarkable inventive years, was a skilful device that provided the merchant adventurer with what he was looking for: a systematic and fraud-proof method of recording the transactions of his long-drawn-out trading voyages in many wares.

Historical development

Reading the Geijsbeek translation of Pacioli's tractate on double entry – published in November 1494 as Chapter IX of a wider *Summa* – is an astonishing experience. Were it not for the turn of phrase, the treatise might have been written yesterday: 1971 double entry is 1494 double entry.

In the economic conditions that prevailed until the advent of the industrial revolution, accounting presentation in the double entry form reflected reality. The owner-manager was the dominant personality in an exclusively mercantile environment. Top performance and ownership were vested in one same person. The balance sheet gave the simple picture there was to give. The ingenious artifice of using the monetary unit to illustrate economic reality was, in these circumstances, justified and legitimate.

In these same circumstances, the seeking after double entry profit was a valid economic aim. In the early days of double entry, the profit and loss account reflected performance success or failure as well as ownership reward or penalty, and convention befitted the existing circumstances.

The 15th century was one of the most enlightened and enterprising periods the Western world has ever known. In 1494, the year of publication of Pacioli's treatise, Leonardo da Vinci was 42 and Michelangelo 19. The previous year, Columbus had entered in triumph the city of Barcelona on return from his first voyage of discovery to America. Uncomplimentary references in this essay to medieval convention should be judged in the light of this historical appraisal. What is challenged is no more than the present-day use of such conventions in an assessment of success or failure in the sphere of 20th-century industrial performance.

Industrial revolution

Half-way along the span of years that separates 1494 from 1971 stands a noteworthy date: January 19th, 1736. On this day, a son named James was born in Greenock to a Mr and Mrs Watt. In January 1769, when he was just 33, James Watt patented the separate

steam condenser of his invention, based on earlier pioneer work by Newcomen and Savory. This invention made steam power the servant of man, and so generated the industrial revolution – the historical landmark that divides the mercantile past from the industrial present and future.

As is emphasized by Peter Drucker in *The Future of Industrial Man* (Heinemann, 1943), society today is primarily an industrial society; it is no longer primarily a mercantile society. The dominant economic reality is no longer world-wide commerce; the dominant economic reality today is nation-wide industry.

One outstanding result of the impact of the industrial revolution, which itself led to the creation of the joint stock company, was that managerial performance became physically separated from absentee owner-investor rights. As a direct consequence of this separation, performance success or failure became divorced from owner-investor reward or penalty.

Investor accountancy

The divorce between absentee investor rights and factual performance was unwittingly given statutory endorsement in the provisions of the Companies Act 1862. In the hindsight of 100 years, it is easy to discern a course of events that was not perceived by the actors themselves. In the economic cleavage that came into being, the 19th-century accountants sided – for understandable reasons – with the camp of the investors. The double entry device provided an excellent ready-made instrument for the stewardship of the absentee rights of well-to-do clients. The trouble was, however, that the watchdog of the shareholders became, and has remained ever since, an unintentional guardian of mercantile precedent. Subjective investor rights rule economic proceedings, and the law has stamped a statutory seal upon this state of affairs.

Accounting presentation in the medieval double entry form is not a matter of choice; it is imposed by Act of Parliament. The company auditor today is ordered, under the provisions of the Companies Act 1967, to report upon the balance sheet and the profit and loss account. Section 14 stipulates that it is these documents, and no other, that must furnish a true and fair view.

It is essential to bear in mind that the mercantile régime of economy – which fostered the development of international trade by sailing ship – had attained remarkably high standards in accounting and monetary technique at a time when the industrial revolution was still in its infancy.

The double entry system, together with the gold standard and the mechanism of the bank rate, may be said to represent outstanding instances of accounting and monetary ingenuity, geared to the mercantile aim of a mercantile age.

These skilful accounting and monetary practices, and the financial organization that was developed in order to service world-wide commerce, are in their greater part unsuitable for the accounting and monetary servicing of nation-wide industry. At the time in history when the foundations of the complex mercantile structure were laid, industry was as yet unheard of. World-wide commerce and nation-wide industry are two very different pursuits.

Under 20th-century circumstances, the balance sheet and the profit and loss account are neither designed nor qualified to provide a valid objective assessment of industrial success or failure. As a consequence of the 19th-century cleavage hardened into shape by statute, two separate forms of accounting appraisal and presentation are called for: investor accountancy and performance accountancy. The first in terms of conventional double entry; the second in terms of objective reality, in its visible, tangible and psychological manifestations.

The functional purposes of the balance sheet and the profit and loss account in the industrial 20th-century are to provide clear answers to the investors' justified inquiries:

(1) What has happened to our monetary investment? (Balance sheet.)

(2) What has been the yearly reward on our investment? (Profit and loss account.)

The company auditor, under this heading, should be relieved of the onus of any statutory affirmation concerning the truth of anything. The subject-matter of his report to the investors should be confined to informing them whether or not the financial statements rendered represent a fair and accurate account of the stewardship of their investment.

In the forward march of time, the 1494 device of double entry still retains its legitimacy within the specific frontiers of absentee investor rights.

Performance accountancy

Should the balance sheet and profit and loss account remain confined within the sphere of investor rights, what will be the shape and substance of the presentation of factual industrial performance? In what terms will the profit or loss of physical industrial enterprise be appraised?

The monetary unit, under 20th-century circumstances, is no longer an adequate and thus suitable medium to appraise and illustrate the realities of industrial performance. Sad as it may be to say, this time-honoured partner of the accountant, this sole and trusted companion through the centuries, is no longer able to provide a true assessment of economic success or failure. Conventional use of the monetary unit is legitimate and practicable within the boundaries of the stewardship of investor rights, but not beyond these boundaries.

In the performance presentation of tomorrow, there will certainly be no place for use of the monetary unit in a purely conventional capacity. A bank balance will, of course, be presented as such; so will debtors and creditors, for the monetary unit in these instances is not conventional, but factual. A factory, however, will

be presented as what it *is*, i.e., a busy hive of manufacturing activity; not as a monetary figure labelled 'at cost, less provision for depreciation'. The amount of money that happened to change hands at the time the factory was built or purchased is an irrelevant factor in appraising the merits or shortcomings of current manufacturing performance. No longer, in the performance presentation of tomorrow, will industrial achievement be illustrated in conventional terms of the monetary symbol.

Considerably more calls to be said on this aspect than can be encompassed within a short article. The above glimpse may be sufficient, however, to lead the reader to ask himself whether accounting presentation in double entry form should be looked upon as a permanent end in itself. Is it the destiny of the professional accountant to remain for ever shackled to medieval monetary arithmetic, or is accountancy an art of objective appraisal and presentation which, over the passage of time, calls to be adapted to the new circumstances arising from evolutionary change? And is not the industrial revolution a momentous changing circumstance?

Banking practice

Should it be demonstrated that the balance sheet is an outmoded document within the sphere of 20th-century economic performance, such proof can but cast a disturbing shadow upon the efficiency of present-day banking practice. For the medieval balance sheet is the bi-columnar mainstay of modern banking technique.

Banking practice today still rests upon a conventional system of arithmetical ratios inherited from mercantile times, known as the 'pyramid of credit'. This pyramid is fitted within the double entry framework of the bank balance sheet.

It is beyond the terms of reference of this article to enter into the double entry procedures of present-day bank accountancy. It may be remarked, however, that the suggested division of accounting presentation under the distinctive headings of investor accountancy and performance accountancy, applied to the field of banking practice, opens the way to an unfolding of 20th-century industrial power.

The stewardship of subjective shareholder rights in individual banking corporations represents one particular accounting task. A diligent banking service keyed to nation-wide industrial performance involves a distinct and separate accounting task. Two very different birds in two very different trees cannot be disposed of with one stone.

Considerable thought and enterprise have been devoted over past years to what may be termed 'the promotion of productivity'. Management accounting and costing represent two aspects of professional activity that are dedicated to the improvement of performance, as distinct from a more formal protection of investor rights.

On the premise that there is but one truth, i.e., the whole truth, the mercantile practice of measuring costs in terms of the monetary unit is no longer in keeping with 20th-century reality. Indeed, any relevant industrial factor that happens to be inexpressible in terms of money is, under mercantile costing technique, left out of account. The most costly element in industrial enterprise today is man turned sour; but as the cost of human sourness cannot be expressed in terms of the monetary unit,[1] it cannot be inserted into the conventional mechanism of debit and credit. It follows that many factors, crucially relevant in a detached analysis of the genuine causes of success or failure – i.e., profit or loss – are excluded from the reckoning.

Accounting for productivity

Current practices in management accounting and in costing are thus geared to the mercantile aim that rules the present economy; the immediate purpose of increased productivity is increased double entry profit.

No one, on a point of neutral principle, has any quarrel with increased double entry profit. The larger the reward the better; this is but plain common sense. Moreover, in this detached appraisal, the destination of the increased reward is not at issue. The seeking after double entry profit, however, is no longer a valid economic aim. Satisfactory double entry profit, in 20th-century circumstances, can only be a desirable consequence resulting from the pursuit of a different economic aim – an objective aim attuned to an optimum display of nation-wide industrial teamwork.

An earlier and prior consideration to the distribution of monetary medals is the achievement of tangible industrial victory. The immediate aim must be success, not reward.

These observations lead logically to the following questions:

(1) Is it possible to identify an economic aim aligned to present-day industrial circumstances?

(2) If so, what are the essential features of this different aim?

(3) In particular, how is a practical application of the principles of performance accountancy dovetailed into the new overriding aim and the new criterion of objective success or failure?

These are justified questions that call for constructive answers. However, these answers must of necessity cover a wide field – a field that includes but extends beyond the professional service of accounting appraisal and presentation.

Stepping forward from the statutory imposition of a mercantile past to the immediate realities of an industrial present is an undertaking that demands closely co-ordinated action. The scope and the nature of this combined operation greatly surpass the powers and responsibilities of professional accountants. For accountants, first and foremost, are servants. The onus of instituting and conducting a modernization of the economic household rests with the master; the captaincy of the operation calls to be taken in hand and exercised by enterprising men of industry.

[1] But see 'Employee Evaluation', by J. V. C. Butcher, A.C.A., *The Accountant*, August 6th, 1970.

MANAGEMENT INFORMATION

Zero-base Budgeting

PARTICULARLY at government level, but also at much lower levels, budgeting estimates tend to take as their starting-off point the existing level of expenditure. Thus if a department had last year so many millions of pounds voted to it by Parliament, it is only increments over and above this that, in practice, have to be fought for the current year.

Much the same applies to budgeting in business organizations. Sometimes, and in bad years most assuredly, all expenditure by all departments comes under investigation and anything may be cut. But this very phrase implies that it is cut from the existing level of expenditure. Zero-base budgeting however, takes a very different point of departure. Under such budgeting, *all* expenditure has to be justified anew each year, even if much of it seems obviously justifiable and indeed inevitable.

An article by Peter A. Pyrrh ('Zero-base budgeting', *Harvard Business Review*, November-December 1970) describes how this technique has been applied at Texas Instruments. The basic argument which is elaborated there is that all departments must present their requests for appropriations starting from ground zero. However, right at the outset, it must be made clear that the only type of expenditure with which zero-base budgeting is concerned is overhead expenditure; indeed, even direct overheads, in so far as they exist and can be identified, are excluded from this analysis. The reason for this is that a company's level of manufacturing activity will be the overriding factor in determining the figures for direct labour, direct materials and direct overheads. It is the other overheads, those concerned with finance, administration, marketing, planning, quality control and so on for which zero budgeting should be used.

Decision packages

The procedure is based on the ranking of decision packages. A decision package is defined by Mr Pyrrh as one that 'describes a specific activity in such a way that management can (*a*) evaluate it and rank it against other activities competing for the same or similar limited resources and (*b*) decide whether to approve or disapprove it'.

Basically there are two types of decision packages. They are:

(1) Mutually exclusive packages which give alternative means of performing much the same function.

(2) Incremental packages in which different levels of effort and expenditure are expended on a specific function.

An example of the use of the first package would be in the decision whether to expand sales by spending money on TV advertising, additional salesmen or direct mail circulation. An example of the second package would be in the decision whether to have two, three or four quality control supervisors.

Once a particular package has been identified the next step is to specify the particular costs and benefits in that package. Costs are usually comparatively easy to establish and can be expressed in money terms. Benefits are more of a problem – they require as a first step that the particular goal be established. In general it is difficult to put a money value on benefits. This means that any direct comparison between the costs and the benefits is impossible. It is therefore the job of management to evaluate the costs and the benefits and to rank all packages in order of decreasing benefit to the company.

Priorities

Ranking is best performed by a committee whose members should consist of all the managers whose packages are being ranked, together with a chairman, preferably from the next higher organizational level. In theory, one ranking of all decision packages could be obtained for a company. In practice the number of packages may be so great that an overall review must give way to a series of graded assessments. By way of example, if we assume that three grades of assessment are necessary, the typical situation would be that, at the lowest level, all packages above a cut-off rate representing a total value of say 50 per cent of last year's budget would be passed. The remainder would then be passed to the next level, where they would be checked, and ranked again if necessary. At this level a higher percentage cut-off rate would be allowed. Various new packages would therefore be skimmed off, and the remainder passed to the top level of assessment for final grading and evaluation.

The benefits from zero budgeting arise mainly for two reasons. First, it makes management re-assess all expenditure anew rather than just look at incremental expenditure. This is important, since some overhead expenditure may have been vitally necessary in the past but it can now be seen, on close analysis, that there is no longer any need for some or all of it. Secondly, the very necessity to present and justify each type of package in terms of a cost-benefit layout makes management come to terms with just what are the objects of each particular proposition and how far the package really achieves that aim.

Many of the benefits, as has been noted, cannot in the present state of knowledge of the subject be expressed in money figures or indeed in any quantitative terms at all. However, even expressing the benefits verbally should lead to a more precise awareness of their real worth.

The Institute of Chartered Accountants in England and Wales

President's Statement

accompanying the Report and Accounts for 1970

My year of office has been dominated by the vote on the scheme for the development of the accountancy profession.

Following the rejection of the scheme I announced that the Council would review the objectives of the Institute and the policies it should pursue in the future.

A special committee is now examining these matters with a view to making recommendations to the Council but it is not expected to complete its work for some time.

In the meantime it is important to remember that the aims of the Institute were set out in the Supplemental Royal Charter of 1948 as:

> '. . . the elevation of the accountancy profession as a whole and the promotion of its efficiency and usefulness by compelling the observance of strict rules of conduct as a condition of membership and by setting up a high standard of professional and general education and knowledge'.

The main activities on which the Council is currently engaged to achieve these aims are described below.

Mr C. Croxton-Smith, M.A., LL.B., F.C.A.

Education

Significant changes in the educational sphere have taken place in the post-war era. These developments are the subject of a continuing study with a view to obtaining maximum benefit from them.

(a) Admission standards

It has already been announced that, subject to the approval of members at a special meeting following the annual meeting, the minimum educational standard for entry into articles will be raised to include two 'A' levels and will, in general, operate from July 1st, 1971.

Under the scheme for the development of the profession, the creation of a second tier qualification was considered a prerequisite to the raising of entry standards but without integration it would be premature to set up such a qualification within the Institute. The Council is, however, considering a number of possibilities to meet the problem of the recruitment of junior staff to members' offices.

(b) Student education and training

Professional education requirements must be made attractive to the new level of entrant, especially graduates, and courses of full-time study must be further developed. Drafts of revised examination syllabuses appropriate to the new level of entry have been exposed for comment.

The Council is considering what further steps it should now take to improve the quality of practical training and, in particular, to provide opportunities for students to obtain training in the skills needed by industry. The Council intends to seek power to inquire, before articles are registered, into the range of experience which a firm will provide.

(c) Post-qualification services

Much has already been achieved in creating opportunities for members to keep up to date. For example the Certificate in Management Information and the Joint Diploma in Management Accounting Services have been established by the Institute in association with other accountancy bodies; a wide range of courses is being developed both at national and local level; technical and other publications are available on a variety of subjects; and the library service has been extended in recent years.

The Council intends to make further provision for the post-qualification needs of members in an even wider range of subjects than is presently available.

Technical services

(a) Legislation

The Council devotes much time and effort to keeping under review United Kingdom legislation affecting members and

in making representations to government departments. The subjects covered are diverse, but the two most important are taxation and company law. The former occupies a position of prime importance, particularly in view of the Council's continuing pressure for greater simplification of the taxing statutes.

(b) Guidance statements on accounting and auditing

In recent years the Council has issued many guidance statements on accounting and auditing and this work will continue. The importance and value of those already issued have been widely recognized.

(c) Accounting standards

The Council has made clear its continuing determination to advance accounting standards in order to meet the demands of the financial and business community. The programme to develop accounting standards has met with widespread support and is being accelerated. It is planned to issue by the end of 1971 (in addition to *Treatment of income of associated companies*, *Accounting for acquisitions and mergers*, *Disclosure of accounting policies* and *Earnings per share*) exposure drafts on at least four of the following subjects:

- Form and content of profit and loss account and balance sheet;
- Treatment of extraordinary and prior year items;
- Fundamental principles of inventory valuation;
- Accounting for contract work in progress;
- Treatment of investments in the accounts of trading companies and industrial holding companies;
- Depreciation of fixed assets;
- The treatment of taxation in accounts.

(d) Auditing standards

A comparable programme on auditing standards will be undertaken as soon as resources permit.

(e) Departures from accounting and auditing standards

The Council has, through the disciplinary procedures, 'compelled the observance of strict rules of conduct' but unsatisfactory professional work has not, hitherto, been a matter for disciplinary action.

As best practice is progressively defined and announced, all members will be required to follow the code or disclose and justify departures. Failure to disclose any departure may render a member liable to disciplinary action.

(f) Professional standards

The Professional Standards Committee has made progress in identifying problem areas but the Council considers that more positive measures will need to be taken in cases of unsatisfactory professional work.

Elevation of the accountancy profession as a whole

(a) Liaison with other agencies

The liaison maintained with government departments and other official and representative agencies ensures that the Council is consulted on all relevant matters. The Council's advice and assistance is sought and valued. It is, however, important for the accountancy profession to speak with a united voice and the close collaboration which has developed with the other major accountancy bodies in Great Britain and Ireland will continue.

(b) Overseas relations

The problems which arise from the growing international character of business and of the accountancy profession are being studied through the Union Européenne des Experts Comptables Economiques et Financiers and other international liaison groups. Nowhere is this more vital than in Europe where the projected entry of the United Kingdom into EEC could have far-reaching consequences on every type of business in this country. The Council supports the reorganization and redefinition of the objectives of the UEC which is being undertaken to strengthen its influence on the development of the profession and the raising of standards generally in Europe.

To strengthen the position of members overseas, power will be sought to grant membership facilities to those members of certain overseas accountancy bodies who are in practice or residing in the United Kingdom provided that our members are granted equal rights in the countries concerned.

(c) Research

Much more time and effort must be devoted to fundamental research into the theory and practice of all aspects of accountancy. Ways and means of finding additional financial resources for the promotion of research are being pursued; for example over the past five years grants totalling nearly £50,000 have been made by the P. D. Leake Trust to the Research Foundation and for Research Fellowships in universities.

There are, however, two major problem are as which inhibit the Council from fully developing its policies.

1 Communications

A great deal has been done in improving communications from the Council to members but little has so far been achieved in the reverse direction. Major reform may be necessary to establish effective two-way communication so that the Council can reflect and respond to the needs and aspirations of the membership. The constitution of the Institute, including the machinery for appointment to the Council and to local members' and students' organizations is accordingly being reviewed.

2 Finance

The Report and Accounts for 1970 disclose the extent of the change in the Institute's financial position. This is mainly due to our new headquarters which will be of lasting and increasing benefit to the membership in the long term.

During the early days of the Institute its Council decided to acquire a freehold site in Moorgate Place. The building then erected, with some extensions during the 1930s, served as our headquarters until the late 1950s. Throughout the first sixty years of our history members increasingly enjoyed the financial benefits arising from the

ownership of freehold premises as opposed to the rising costs of rents which would have been payable under leasehold tenure.

Following the integration with the Society and the rapid growth in membership since, it became necessary to plan for an enlarged headquarters. Extensive inquiries were made before a decision was reached. The most sensible thing to do, not only for the present generation, but also for future generations of members, was to add to our existing freehold premises – and this is what we have done.

The enlarged Chartered Accountants' Hall was re-opened on May 6th, 1970, by Her Majesty Queen Elizabeth the Queen Mother and has received commendation from members, architectural critics and many others who have visited it. We now have a headquarters which reflects and symbolizes the high reputation enjoyed by the profession and which should provide for our known needs for years to come. Indeed, it has been deliberately planned to leave two floors available for future occupation which will be let at substantial rents in the meantime.

The increase in subscriptions approved by members last October was an interim increase intended to cover the deficit in 1971 only. It did no more than match the increase in costs arising from the re-occupation of Chartered Accountants' Hall, referred to above, inflation and some expansion in activities over the last five years.

In order to minimize this increase, an upper limit of expenditure was fixed and all departments were instructed that they must cut their budgets substantially.

I am convinced that there is no room for further material economies without seriously impairing current activities, which would be inappropriate at a time when more is being demanded of us in the fields of student and post-qualification education, research and other technical activity, and in connection with the possible entry of the United Kingdom into the European Economic Community. There is much work to be done by the members of our Institute whether they be in practice, industry or the public service, at home or abroad, and they need the support of a strong and active Council and headquarters staff.

It is my belief that only two responsible courses of action are open to the Council and to members in 1972, the transfer of some further major activities to a self-financing basis or an increase in subscriptions. I anticipate that my successor will submit proposals to the members in the autumn.

C. CROXTON-SMITH,
President.

April 1971

Annual Report

Extracts from the annual report of the Council to be presented to the 90th annual meeting of the Institute on Wednesday, May 12th, at Chartered Accountants' Hall, Moorgate Place, London EC2.

Integration and future policy

A SPECIAL meeting was held in the Royal Albert Hall on Wednesday, June 24th, 1970, to consider a resolution to implement the scheme for the development of the accountancy profession in Great Britain and Ireland which had received a large measure of support from members in 1969. The result of the poll announced on August 14th, 1970, was 13,700 votes (44·8 per cent) in favour and 16,845 (55·2 per cent) against. A second resolution proposing the adoption of a new subscription scale consequential upon the passing of the first resolution was accordingly withdrawn.

When announcing the result of the poll the President forecast the appointment of a special committee to examine the objectives of the Institute, the policies it should pursue in the new circumstances and to make recommendations to the Council. That committee was appointed by the Council from a wide cross-section of the membership (including members in large and small companies, sole practitioners, young members and members from the provinces as well as London). The committee met four times before the end of the year including two whole-day Saturday meetings.

Monopolies Commission

The Monopolies Commission's Report on the supply of professional services (Cmnd 4469) was published on October 28th, 1970. In common with all other professional bodies the Institute has been asked by the Secretary of State for Trade and Industry, to examine the Institute's practices in the light of the Commission's guidance, and to let him know by April 30th, 1971, of any modifications it proposes to make. Some of the subjects covered in the report have been considered by the Joint Committee on Ethics consisting of representatives of the three Institutes of Chartered Accountants and for this purpose representatives of The Association of Certified and Corporate Accountants. These included scales of fees (which the Institute does not recommend or prescribe and accordingly is in line with the practice recommended by the Commission) restriction on advertising inter-professional partnerships and the provision of services by bodies corporate.

Technical activities and research

The Council's work in the promotion of accounting standards has been one of the most important features of the Institute year. In June the Accounting Standards Steering Committee published its first exposure draft *Accounting for the results of associated companies* and release of further exposure drafts is continuing. Accounting Standards will impose further obligations on all chartered accountants who have responsibility for the preparation of financial accounts, whether in practice, industry or commerce. They mark a major and necessary advance in the profession's response to the developing needs of the business and financial community and have been widely welcomed.

Considerable effort has been put into the Council's campaign for tax simplification. The Council submitted evidence on the subject to the Parliamentary Select Committee on Procedure and joint working parties have been established with the Inland Revenue to discuss a number of areas of specific difficulty.

Increased effort has been devoted to research. During the year the Research Committee published a *Survey of published*

accounts 1968–69, an examination of methods of financial reporting used by 300 major British companies and a revised edition for 1969–70 was published early in 1971. The committee also published a study of Funds Flow Statements and arrangements were completed for publication of a major work on depreciation early in 1971.

Two other publications were the Parliamentary and Law Committee's *Financial and accounting responsibilities of directors* (of which over 80,000 copies have been distributed) and *Decimal currency procedures*, a concise guide to the conversion of business records for practising accountants and their clients, prepared jointly by the Technical and Parliamentary and Law Committees of which some 60,000 copies have been distributed.

The Technical Committee's main concern was to support the Accounting Standards Steering Committee by preparing studies and other material as a basis for accounting standards.

Apart from its continued efforts in the field of taxation, the Parliamentary and Law Committee's activities included the preparation of evidence for the Bolton Committee of Inquiry on Small Firms, advice to the Commission of the European Economic Community on company law and related matters, and the publication of advice for members on engagement letters.

In all these matters support and advice was given by the Technical Advisory Committee.

The Accountants' International Study Group met twice during the year, in June and in December, and early in 1971 published its fourth study *Accounting for corporate income taxes*. Topics currently under study by the group include diversified operations, consolidated financial statements, profit forecasts, funds statements and extraordinary and prior period items.

At December 31st the five major committees responsible for the Institute's technical activities, Accounting Standards Steering Committee, Parliamentary and Law Committee, Technical Committee, Research Committee and Technical Advisory Committee, were serviced by a qualified staff of six. There were more than 150 committee and sub-committee meetings at the Institute in 1970 on technical matters involving about 150 individual members, and some hundreds of other members in District Societies. The total cost to the Institute of technical operations was £119,000. Technical activities play a crucial part in maintaining the Institute's standing as one of the world's leading accountancy bodies, but the rate of progress is limited by the financial and manpower resources available.

Recruitment

In 1970 the number of articles registered totalled 4,704, compared with 4,232 in 1969. The percentage of entrants with two 'A' levels or higher standard rose to 73·7 per cent (70·1 per cent in 1969). Graduates of universities in the United Kingdom and Republic of Ireland numbered 1,095 (23·3 per cent) compared with 814 (19·3 per cent) in 1969.

The number of graduate recruitment visits by Institute staff has been further increased and has been extended to polytechnics providing courses for degrees of the Council for National Academic Awards. The current programme for the academic year 1970–71 refers to 38 universities and 3 polytechnics. The visits have been mainly for the purpose of interviewing undergraduates individually; in some cases facilities have also been provided for career talks.

District societies assisted in providing Easter holiday courses for boys and girls during 1970, based on the course programme of the Public Schools Appointments Bureau but extended in some cases to other schools.

Apart from district society contacts there were over 200 cases of direct approaches by members and others to the Institute for materials for use in careers conventions and exhibitions. The Institute itself, with substantial support from teams arranged by the London and District Society, took a stand at the Opportunity 70 exhibition at Olympia in December 1970.

A report of the Recruitment Committee entitled *A survey of the recruitment of articled clerks* was issued in April 1970 to all practising members. In a summary of views and conclusions the report emphasized that the lower levels of salaries should be raised if the profession is to become more attractive to recruits. It pointed out that the need for a new approach to salaries is made even more urgent by the declared intention to raise the minimum educational standards for entry into articles. Some offices of practising members following a high salary policy are able to cover the increased costs involved and these firms have few, if any, recruitment problems. Copies of the report are available, free of charge, from the Institute.

Local education authorities have the power to make grants giving financial assistance to articled clerks who follow full-time and part-time courses of study. A summary of the position is given in a publication *Financial assistance for articled clerks – Grants from public funds* issued with every Preliminary Certificate and obtainable on request from the Institute.

Education and training

The Education Committee in 1970 was fully engaged in studying the fundamental issues relating to the development of future members of the Institute. Following the rejection of the scheme of integration in August it was necessary to re-examine the Institute's views on education and training. The committee is looking ahead and taking the long view: an appreciation of the role of the accountant in the society of the future must condition the way in which the chartered accountant is educated and trained today.

The Council is proposing to raise the minimum educational standard for becoming an articled clerk to two 'A' levels with an appropriate number of passes at the 'O' level and the reasons for this proposal are contained in the notice convening the Special Meeting in May 1971 which accompanies this report.

An exposure draft of proposed changes in the syllabus and structure of qualifying examinations was circulated widely in October 1970 with a request for constructive comment. The proposed changes were based upon the idea of three examinations progressive in nature and reflecting a substantial advance in standards. The three examinations would be relevant to and have a bearing on any system of post-qualifying examination and might allow for additional papers at the last examination to permit a degree of specialization, if this were thought appropriate.

The number of colleges providing full-time nine-month courses for four-year articled clerks increased to 25 giving a minimum of 1,400 places and it is hoped to be able to invite further colleges within the polytechnic structure to participate in 1971. Forty-eight institutions of further education provide introductory courses and courses for the intermediate and final examinations. The details of these courses and of those conducted by 16 private tutorial organizations are contained in the Institute's booklet *Courses for Articled Clerks*. In addition the Institute has been able to arrange for a limited number of places at graduate conversion courses to be made available at the City of London Polytechnic and the Polytechnic of the South Bank. Successful completion of these courses gives exemption from the Institute's intermediate examination.

There are now some 30 University and 20 Council for National Academic Awards degree courses approved by the Joint Standing Committee on Degree Studies and the Accountancy Profession. A further eight courses are at present under consideration.

To assist in meeting the demand for places in faculties and

departments of accounting and business studies, Chartered Accountants Charities Ltd with the South Wales and Monmouthshire Society of Chartered Accountants, has supported the endowment of a new chair of accountancy and financial control at University College, Cardiff. Charles C. Magee, B.COM., F.C.A., formerly Senior Lecturer at the College, is the first occupant.

The committee has had the benefit of discussions with representatives of universities and polytechnics through the Joint Standing Committee on Degree Studies and the Accountancy Profession. It has also met representatives of the Committee of Directors of Polytechnics, of the Association of Lecturers in Accounting and of the Association of Independent Tutors in Accounting. In addition, the newly established Advisory Board of Accountancy Education provides an opportunity for the exchange of views between the accountancy profession, educational and other institutions and departments of the Government concerned with the development of educational facilities in accountancy subjects throughout the country.

Representations have been made both to the University Grants Committee and to the Committee of Directors of Polytechnics for a substantial increase in the facilities which can be provided by universities and polytechnics in the field of accountancy and business studies.

The P. D. Leake Trust awarded:

two Teaching Fellowships, tenable for two years, to B. Gordon-Picking, B.SC.(ECON.), A.C.A., at the London School of Economics and to R. W. Scapens, A.C.A., at the University of Manchester.

three Graduate Studentships, tenable for two years, to R. J. Duckitt, A.C.A., D. C. Fletcher, A.C.A., and D. B. Marsh, A.C.A., at The London School of Economics.

K. V. Peasnell, M.SC., A.C.A., was appointed to a P. D. Leake Research Fellowship in the Department of Financial Control, School of Business and Organisational Studies, the University of Lancaster, from August 1970, for a period of two years. The research topic chosen is 'The uses of, needs for, and form of published information regarding company financial affairs'.

The Trust has also give financial support to a research project on the hidden costs of personal taxation being carried out under the supervision of Professor C. T. Sandford, Professor of Political Economy at Bath University.

Post-qualifying courses

The development of Institute courses continued during 1970 when fourteen residential courses were attended by some 1,720 members and non-members. During the latter half of the year all courses were oversubscribed and members' own assessments of Institute courses indicated that they all came well up to their expectations and that the standard of both content and lecturing is rated highly. New courses included one on Current Developments in Audit Practice, which made an extremely promising start in November, and three more in the 'Current Tax' series.

Plans for 1971 include an increase in the range and frequency of residential courses and the introduction of a variety of shorter non-residential courses at Chartered Accountants' Hall. In addition to the existing range of courses, new subjects under development include:

Residential courses

Group Audits; Financial Control (small- and medium-sized companies); Executorship and Trusteeship; EDP–Computer Developments for Management; Management Information–Planning and Control (an advanced course); Financial Strategy; Taxation–Family Companies, Interests in Land.

Non-residential courses

Auditing–Statistical Sampling, Management of Audits and Flow Charting and Evaluation of Controls; Accounting–Prospectuses and Profit Forecasts; EDP–Operating Effectiveness of Installations; Effective Speaking.

Occasional one-day seminars will also be presented at Chartered Accountants' Hall in which persons of distinction from inside and outside the profession will be invited to take part.

The pricing of courses must take account of increases in costs, which would be much higher were it not for the time and the technical knowledge and material given freely by the members of the Sub-Committees and Working Parties and their organizations. In future the pricing policy must set fees at levels which will cover full costs, but a proportion of courses is now being mounted at universities in order to minimize accommodation costs.

There were some four hundred applications to hear the distinguished speakers at the 1970 Summer Course at Cambridge which, for the first time, was constructed round a single theme of 'What is Profit?' Future Summer Conferences, as they are now to be called, will build upon the success of 1970 Cambridge course without losing the best features of previous Summer Courses. They will provide opportunities to hear and debate with well-known speakers and the chance to meet members from different sectors of the profession in a relaxed atmosphere in which views can be exchanged on topics of current professional interest.

Ethics

The conflict between the need to avoid undue restrictions and yet maintain high standards of conduct has dominated professional ethics in 1970.

The detailed requirements relating to 'Advertisements for Staff' have been amended to conform more closely with modern advertising practice.

A committee has been appointed by the Council to consider applications under the 'management consultancy' statement reproduced in section E6 of the *Members' handbook*. It is the responsibility of the committee to establish whether applicants have the necessary experience and knowledge to warrant the use of the description 'management consultants' or a similar description. A list of organizations permitted to use such a specialist description is available on request to practitioners and to members of the general public.

Both the Investigation Committee and its staff spend a large part of their time answering members' inquiries for advice in addition to dealing with complaints.

Professional standards

The Professional Standards Committee has been mainly concerned with the improvement of standards and has considered, at the request of members and others, matters of general principle which might have caused difficulty.

Some of the cases which have come to the attention of the committee have shown marked lapses from appropriate standards but in almost every case where these have been brought to the attention of the member concerned the situation has been recognized and steps taken to rectify it. Where serious shortcomings have been disclosed, the committee has referred the facts to the Investigation Committee.

During the year the committee published comprehensive notes to assist auditors of the accounts of members of Stock Exchanges. Among problems it is currently considering are those arising on the reports of auditors under the provisions of the Friendly and Industrial and Provident Societies Act 1968.

The committee's regular scrutiny of accounts has been extended this year to include accounts of unquoted companies.

At meetings with representatives of the Committee of London Clearing Bankers, the Stock Exchange, the Issuing

Houses Association, the Society of Investment Analysts and the British Insurance Association matters of joint interest continue to be discussed.

District Societies

The importance of district societies in stimulating local activities and contacts between members has always been recognized by the Council. In addition, district societies maintain valuable contacts with local schools, universities, chambers of commerce and other industrial and commercial organizations. These activities are financed by grants to district societies which amounted to £70,468 in 1970. The effect of inflation is causing costs to rise steadily, but district societies are seeking to limit this by making social and educational activities self-financing.

An increased number of district society courses was held during the year. A total of 45 one-day or half-day courses and seminars was held in taxation (18), auditing (9), management information (8), investigations and valuations of businesses (3) and other subjects. Sixteen residential courses were mounted by eight of the societies in a wide range of subjects. 'Package courses' provided or sponsored by the Institute are included in both the residential and non-residential programmes of district societies and it is hoped to increase the range of such courses. A pilot project, designed to assist the smaller district societies, branches and discussion groups, was the preparation of a tape-recording on 'Shortfalls'. Initial reactions have been favourable and other tapes are being prepared.

Public relations

Institute activities were widely publicized during the year and many articles written by members and the secretariat appeared in the national and provincial press. A press seminar was held in April to publicize the Council's progress in working to improve accounting standards and to launch the Research Committee's publication *Survey of Published Accounts 1968–69*. Two members acted as television commentators on the 1970 Budget for BBC and ITV. District Society Information Officers continued to consolidate their contacts with provincial news media and a briefing meeting was held at the Institute in June 1970.

The 1970 National Advertising Recruitment Campaign produced a very good proportion of replies from 'A' level students and graduates. Advertisements were reserved in selected careers supplements in the *Observer*, the *Sunday Times*, *The Times* and the *Daily Mail*.

The Business Game for sixth-formers, organized with the co-operation of International Computers Ltd, is now a well-established annual event. The 1970–71 Business Game, which commenced in October 1970, involved 241 schools and again illustrated the increasing enthusiasm of teachers and students for this management exercise.

The Institute's recruitment film *The Business Game* was shown at over 300 schools, youth employment meetings and careers conventions during the year. Showings of a career guidance film, *Finance People*, produced for the Careers Research and Advisory Centre and co-sponsored by the Institute, were also arranged. *The Newest Profession*, a film on chartered accountants in management consultancy, was launched at a première held in March 1970. Institute prints of the film have been loaned to schools, technical colleges, universities and a wide variety of industrial and commercial organizations. Copies of the film have been purchased for use in the United States, Canada, Australia, New Zealand, South Africa, Sweden and Malta.

A National Management Game, involving 243 teams of young executives from leading organizations throughout the country, was launched in 1970 by the Institute in co-operation with the *Financial Times* and International Computers Limited. Preparations have been completed for a second exercise in 1971 and approximately 800 teams will be taking part.

Overseas relations

The principal objectives of the Institute in its relationships with the professions in other countries throughout the world are:

(*a*) the worldwide development of the profession, the improvement of techniques and the raising and harmonization of standards;

(*b*) the dissemination of information and the promotion of co-operation between the professions in different countries;

(*c*) the achievement of a situation where properly qualified accountants can serve their clients free from artificial barriers based upon nationality or residence and from restrictions on partnerships or the use of firm names.

In pursuing these objectives the activities of the Overseas Relations Committee have become increasingly directed towards a fuller involvement in the development of the Union Européenne des Experts Comptables Economiques et Financiers (UEC) and of bilateral and multilateral liaison committees. They have also led to the Institute's participation (albeit on a limited basis by reason of the United Kingdom's position outside the Common Market) in a study group of accountancy bodies from the Common Market countries which is accredited to the Commission for the European Economic Community.

Finally, the Institute has been concerned in representations to mitigate the effect of restrictive policies in some overseas countries – representations which have been complemented in many cases by help and advice to the newly-established accountancy bodies in the countries concerned. This includes assistance in the conduct of examinations through the Overseas Accountancy Examinations Advisory Board. In 1970 the Board gave assistance to the Institute of Chartered Accountants (Ghana) and the Institute of Chartered Accountants of Nigeria.

His Royal Highness The Duke of Edinburgh has graciously consented to give his patronage to the next study conference of UEC which the Institute is organizing in London from October 4th to 8th, 1971. The theme of the conference will be 'The development of the accountancy profession and practice in Europe in the 1970s'.

Chartered Accountants' Hall

The Institute's new headquarters were formally opened by Her Majesty Queen Elizabeth The Queen Mother on Wednesday, May 6th, 1970. The formal opening was followed by a series of six 'open days' during May when all members were invited through their District Societies to visit Chartered Accountants' Hall.

Facilities for members at the new headquarters (which include the library, restaurant, showers and changing rooms, interview rooms and the members' and members' guests rooms) became available in June. The restaurant is open from noon until 3 p.m. and members can bring guests. The Great Hall and other rooms can be booked for meetings and functions ranging from small receptions to full-scale banquets.

Those sections of the secretariat required to service the Council and its committees returned to the new building in June. The remainder of the staff which did not need to be located centrally (for example, the accounts, registration and courses departments) have remained at City House and this

has enabled two floors at Chartered Accountants' Hall to be made available for letting.

Invisible earnings

In December 1970 all practising firms and sole practitioners in the United Kingdom were invited to send anonymously to the Bank of England total figures of invisible receipts and payments for 1970. This will enable the Bank of England to record the contribution of the profession to the export effort for the year 1970. In 1967, when practising firms were invited to provide similar statistics for the year 1965, total receipts amounted to £1¼ million.

Membership

The number of members of the Institute on January 1st, 1971 was 49,705, an increase of 2,053 during the year.

Computerisation

In January 1969 the Council approved a project to transfer the membership records to magnetic tape form using a service bureau computer. The proposed system provides a record card for each member and firm; a labelling system for mailing purposes; automatic typesetting of the *List of Members* (to be published in May) and statistics. The 1971 subscription demands have been prepared on the computer but full subscription accounting has been deferred until 1972.

The reasons for switching to computer records were that these would be cheaper to operate than a manual system, that annual operating costs would be less vulnerable to inflation or to expansion of work, and that the computer system has the ability to produce information about the membership which is not readily available with a manual system.

The scale and complexity of the task involved in creating 70,000 computer records accurately was underestimated. As a result, the work of setting up the file has taken much longer and the cost has been much more than was originally estimated.

Administration

Much of the work of the secretariat is concerned with the administration of members' and students' affairs, examinations, finance and post-qualification courses.

An indication of some of the work involved is shown in these figures:

Internal Services – These include the library, which expects about 20,000 callers, 4,000 telephone inquiries and 1,600 inquiries by letter each year; registration, involving over 3,000 admissions, exclusions and re-admissions, the issue of 1,800 fellowship certificates, the recording of 1,500 members starting or ceasing to practise and the registration of more than 4,700 new articled clerks.

Students – This requires the processing of more than 2,500 applications for membership a year, of which about 700 entail further correspondence; arranging some 450 personal interviews each year; dealing with general advisory correspondence and some 3,000 inquiries a year following recruitment advertising.

Examinations – About 17,000 candidates are examined every year in some 60 centres and arrangements have to be made for some 26 examination papers.

Finance – This involves the collection of some 50,000 yearly subscriptions necessitating an average clearance of 3,000 inquiries; drawing some 6,000 cheques annually and processing of about 65,000 cash received dockets, administration of 33 trust funds with investments of about £4½ million.

Courses – In 1970 14 residential courses were attended by approximately 1,720 members and 210 directing staff and 55 meetings of committees and working parties were held.

In 1971 the planned programme of residential conferences will double the already considerable administrative effort required for processing application forms, preparing documentation and running the courses and conferences themselves.

Annual Accounts

The Institute's accounts for 1970 show a deficit of £368,817 after charging £158,853 exceptional expenditure. This compares with a deficit of £45,065 in 1969 after charging £49,504 exceptional expenditure.

In spite of continuous inflation there has been no increase in subscriptions since 1966. New rates of subscription were proposed by the Council at a special meeting in May 1968 but the proposals were not approved by members. The implications of this were considered and the Council resolved that the 'question of subscriptions would have to be left in abeyance until members had reached a decision on the present proposals for the future of the profession'. This decision of the Council was reported to members in the annual report for 1968.

In arriving at this conclusion the Council reviewed all the Institute's activities and some reduction in expenditure was effected, but it was considered to be in the best interest of the Institute and of its members to proceed with the policies then in hand (including the completion of Chartered Accountants' Hall and the integration proposals) in the full knowledge that this would result in a substantial revenue deficit.

The position has been aggravated by the delay in completion of Chartered Accountants' Hall. Expenditure which was budgeted for 1968 and 1969 has fallen at inflated rates on the accounts for 1970, whilst relief from sub-letting part of the accommodation was not received.

The major increases in net expenditure were:	£
Interest	74,417
General administration	67,432
Depreciation	25,668
Members' facilities at Moorgate Place	25,440
Educational and technical facilities for members	27,892
District Societies	16,888

Interest, Depreciation and Members' Facilities at Moorgate Place all directly relate to the re-building and re-occupying of Chartered Accountants' Hall. General Administration costs have increased due to the effects of inflation, higher overheads, increasing the strength of the secretariat and the employment of consultants to install an improved budgetary control procedure.

The increase in exceptional expenditure relates to the reopening of Chartered Accountants' Hall, the integration scheme and the computerization of members' records, which has proved far more costly than anticipated.

The return to Moorgate Place has inevitably led to a considerable increase in standing charges and these will continue although there will be some reduction when the surplus accommodation has been sub-let.

As can be seen from the accounts the re-building of Chartered Accountants' Hall has been funded by a loan which is repayable by the end of 1974. This loan rose to its maximum of £2 million on January 1st, 1971, and the long-term funding of this amount at the appropriate time is being considered by the Council.

Future financial policy

The future financing of the Institute's activities is reviewed in the President's statement. In 1971, even with the benefit of the increased subscriptions the expenditure at present budgeted will not be covered by income unless the surplus accommodation can be satisfactorily let and inflation is contained within reasonable bounds.

	1970 £	1969 £
Accumulated Fund		
Balance 31st December 1969	673,217	*576,867*
Donations towards furniture and equipment (Note 1)	21,952	*6,879*
Surplus on realisation of investments (Note 6)	70,875	*134,536*
Revenue Deficit for the Year	**368,817**	*45,065*
	397,227	*673,217*
Development Loan secured on land and buildings repayable 31st December 1974 (Note 2)	1,500,000	*1,100,000*
Current Liabilities		
Creditors and accruals	201,591	*201,558*
Amounts received in advance	45,388	*37,323*
Bank overdraft	603,487	*382,590*
	850,466	*621,471*
	£2,747,693	*£2,394,688*

On behalf of the Council
C. Croxton-Smith
President

	£	£
Chartered Accountants' Hall		
Original Hall and site at cost	120,767	*120,767*
Expenditure to date on alterations and extensions since 1.1.61 (Note 3)	2,171843	*1,854,584*
	2,292,610	1,975,351
Less Depreciation to date (Note 4)	61,411	*46,411*
	2,231,199	*1,928,940*
Furniture and Equipment		
At nominal value 1.1.68	10,000	*10,000*
Additions since at cost	192,668	*23,641*
	202,668	*33,641*
Less Depreciation (Note 4)	10,668	—
	192,000	*33,641*
Library at nominal value	4,500	*4,500*
Investments in Institute Companies at cost (Note 5)	400	*400*
Investments at cost (Note 6)	191,338	*344,877*
Market value £412,743 (1970). £641,717 (1969)		
Current Assets		
Stocks at cost (Catering, paper and publications)	18,742	*7,329*
Debtors	88,516	*54,138*
Payments in advance	19,642	*18,990*
Bank balances	1,356	*1,873*
	128,256	*82,330*
	£2,747,693	*£2,394,688*

Notes forming part of the balance sheet

1 Donations towards furniture and equipment
In addition to cash gifts of £21,952 designated for the purchase of silver and furniture, a large number of gifts in kind was received.

2 Development loan
A further £500,000 was drawn on 1st January 1971 bringing the loan up to its maximum of £2,000,000. This amount of £500,000 has been used to reduce the bank overdraft. The rate of interest payable on the loan is fixed at 1½ per cent over the cost to the lenders of deposits for periods of up to six months in the London Inter-Bank market, or 2 per cent over Bank Rate, whichever is the higher. The average rate paid in 1970 was 10⅜ per cent per annum and the rate for the first six months of 1971 has been fixed at 9¼ per cent per annum.

3 Expenditure on alterations and extensions
This expenditure includes the cost of buildings acquired, obtaining vacant possession and subsequent demolition. Under the Institute's contract for alterations and extensions to Chartered Accountants' Hall there will be further expenditure of approximately £225,000 (subject to final adjustments).

4 Depreciation
(*a*) *Freehold land and buildings*
Depreciation has been provided at the rate of 2 per cent per annum for half a year on the rebuilding cost of £1,500,000. This amounts to £15,000 and has been added to depreciation provided in previous years of £46,411.

(*b*) *Furniture and equipment*
Major items of furniture and equipment totalling £192,668 in respect of Chartered Accountants' Hall have been capitalised and depreciation has been provided at 12½ per cent per annum for half a year. The cost of other items is written off as incurred.

5 Investments in Institute companies
These are companies formed by the Institute for convenience in the administration of trusts associated with the Institute, and for the purpose of protecting names and designations.

6 Investments
During the year investments which cost £351,059 were sold at a surplus of £70,875. It is anticipated that no Corporation Tax will be payable on the capital gain which is more than offset by interest payments. Realisation of all the investments on 31st December 1970 would have given rise to a capital gain for Corporation Tax purposes of approximately £132,000.

7 Staff pensions
The Institute is under obligation to contribute to the Institute of Chartered Accountants Staff Pensions Fund in proportion to staff salaries at a rate, not exceeding 20 per cent, calculated by the actuary. The Institute has also undertaken to contribute £2,250 annually until 1976 in connection with a contributory widows' pensions scheme. The Institute has guaranteed the pension entitlement of 12 individuals who were in the employment of the Institute in 1947 and consented to a subsequent change of rules.

REVENUE ACCOUNT FOR THE YEAR ENDED 31st DECEMBER 1970

Expenditure and related income allocated to main functions	Income	Expenditure	1970 Deficit *Surplus*	*1969 Deficit* Surplus
	£	£	£	£
Membership administration				
Applications and records		47,201	47,201	*32,643*
Conduct		31,521	31,521	*29,762*
Subscription collection		15,674	15,674	*7,337*
General meetings, annual reports and notices to members		18,974	18,974	*11,471*
Appointments Service	19,523	18,046	***1,477***	*9,820*
Members' copies of List of Members		—	—	*18,769*
	19,523	131,416	111,893	*109,802*
District Societies		79,645	79,645	*62,757*
Educational and technical facilities for members				
Certificates in Management Information	1,084	1,974	890	*1,000*
Joint Diploma in Management Accounting Services		3,600	3,600	*1,500*
Courses	87,589	84,480	***3,109***	*2,832*
Library	7,095	32,911	25,816	*22,509*
'Accountancy' (including exceptional credit *re* paper stock of £5,468)	134,657	136,998	2,341	**280**
'Accounting and Business Research' (Note 2)	8,323	12,115	3,792	—
Technical Activities	20,278	139,131	118,853	*96,730*
	259,026	411,209	152,183	*124,291*
Public relations and recruitment				
National advertising		7,374	7,374	*9,934*
Other advertising and publicity	1,210	19,529	18,319	*15,760*
List of Members – complimentary and sale copies	248	377	129	*5,437*
Recruitment	2,301	57,728	55,427	*39,946*
	3,759	85,008	81,249	*71,077*
External relations				
United Kingdom		9,366	9,366	*9,355*
Overseas		28 407	28,407	*25,934*
		37,773	37,773	*35,289*
Students				
Student and Examination Account	181,799	188,971	7,172	*1,984*
Amount transferred from Chartered Accountants Educational Foundation		***7,172***	***7,172***	**1,984**
	181,799	181,799	—	—
Administration of associated trusts and grants to charities	15,001	22,649	7,648	*8,918*
General administration	3,815	167,471	163,656	*96,224*
Members' facilities at Moorgate Place		25,440	25,440	—
Financial items				
Investment income	32,033		***32,033***	**18,819**
Interest	481	157,957	157,476	*83,059*
Fees and expenses (Audit fee £2,500)		2,500	2,500	*7,500*
Property lettings	8,833	4,206	***4,627***	**2,750**
Depreciation		25,668	25,668	—
	41,347	190,331	148,984	*68,990*
	£524,270	£1,332,741		
Net expenditure before exceptional items			£808,471	*£577,348*
General income from members				
Subscriptions			***544,501***	**526,732**
Admission Fees			***54,006***	**55,055**
			598,507	**581,787**
Deficit (*Surplus*) before exceptional items			209,964	**4,439**
Exceptional items				
Integration Scheme		37,214	37,214	*24,614*
Computerisation of members' records		85,101	85,101	*41,990*
Reopening of Chartered Accountants' Hall		36,538	36,538	—
Printing provision no longer required		—	—	**17,100**
		158,853	158,853	*49,504*
Total expenditure		£1,491,594		
Deficit after exceptional items			£368,817	*£45,065*

NOTES

1 Overhead allocation

Accommodation and common office service costs (excluding interest on borrowed money) amount to £248,060 (*1969 £176,689*) and have been spread, as in 1969, over main functions on the basis of direct salaries.

2 'Accounting and Business Research'

The income of £8,323 includes a contribution of £5,000 towards launching expenses from The R. G. Leach Fund of the General Educational Trust of the Institute.

SCHEDULE TO REVENUE ACCOUNT

Analysis of expenditure and related income for the year ended 31st December 1970

Expenditure	1970 £	*1969 £*
Salaries and related expenditure (see Note 1)	472,820	*350,656*
Printing and stationery	162,787	*162,300*
Bank and loan interest and bank charges	160,349	*85,085*
Professional fees and expenses (see Note 2)	93,862	*56,863*
Postage, carriage and telephones	76,831	*64,214*
Grants to district and student societies	75,257	*60,911*
Examiners, moderators, invigilators and examination clerks	66,770	*65,123*
Rates	47,467	*17,569*
Travelling and subsistence	46,683	*43,480*
Rents	43,012	*42,744*
Accommodation for courses and conferences	42,069	*37,917*
Advertising	31,934	*28,820*
Direct expenditure on reopening Chartered Accountants' Hall	27,563	—
Depreciation (see balance sheet Note 4)	25,668	—
Heating, lighting and housekeeping	23,645	*5,899*
Hire of halls, examination desks and chairs	15,986	*15,342*
Hospitality	14,793	*8,928*
Furniture and equipment – renewals	13,622	*13,932*
Grants to charities and technical activities (see Note 3)	11,365	*9,005*
Advertising agents' commission	8,768	*8,668*
Staff advertising and introductory fees	7,585	*5,655*
Library books and periodicals	6,645	*4,911*
Maintenance	5,958	*5,015*
Insurance	5,553	*2,001*
Trading loss on restaurant and catering	5,243	—
Miscellaneous	3,540	*3,511*
Security of premises	2,991	*1,020*
Amount transferred from Chartered Accountants Educational Foundation to Student and Examination Account	*7,172*	**1,984**
Printing provision no longer required	—	**17,100**
	£1,491,594	*£1,080,485*
Related income		
Examination fees	145,401	*141,707*
'Accountancy' sales and advertising revenue	134,657	*127,144*
Course fees	87,912	*82,142*
Preliminary Certificate fees	33,775	*30,207*
Investment income	32,033	*18,819*
Associated trusts – contributions for administration	26,498	*28,482*
Appointments Service – fees	19,479	—
Other publication sales	19,311	*16,239*
Rents receivable	8,833	*4,500*
Miscellaneous	6,974	*4,393*
Grant from the R. G. Leach Fund to 'Accounting and Business Research'	5,000	—
'Accounting and Business Research' sales and advertising revenue	3,323	—
Hire of film – public relations	1,074	—
	£524,270	*£453,633*
Net expenditure	£967,324	*£626,852*

Notes on Schedule to Revenue Account

	1970 £	*1969 £*
1 Salaries and related expenditure		
Staff salaries	419,244	*306,324*
Contribution to Staff Pensions Fund	33,583	*30,215*
Selective employment tax	19,993	*14,117*
	£472,820	*£350,656*
Salaries and related expenditure include the following exceptional items:		
Computerisation	38,053	*11,802*
Reopening of Chartered Accountants' Hall	8,975	—
Integration scheme	6,752	*5,502*
	£53,780	*£17,304*

2 Professional fees and expenses	£	*£*
Computerisation	42,181	*16,682*
Course directors' and lecturers' fees	14,723	*14,493*
Legal fees and expenses	13,074	*9,750*
Authors' and contributors' fees	4,954	*4,058*
Auditors' fees	2,500	*2,500*
Other professional fees and expenses	16,430	*9,380*
	£93,862	*£56,863*

3 Grants to charities and technical activities	£	*£*
Joint Diploma in Management Accounting Services	3,600	*1,500*
Chartered Accountants' Benevolent Association	3,472	*3,674*
The Research Foundation of the Institute of Chartered Accountants in England and Wales	2,437	*2,552*
Subscription to Union Européenne des Experts Comptables Economiques et Financiers	1,856	*1,279*
	£11,365	*£9,005*

New Outlook on Internal Audit

I—Aims and Objectives for a Constructive Approach

by N. A. SMITH, M.B.E., T.D., F.C.A.

WHY are we talking of a 'new outlook' on internal auditing? It is because very many people whose affairs could benefit from the type of activity which we seek to describe still think of auditing merely as a checking function carried on as a clerical operation such as has been well known for many many years. In contrast to that old-fashioned activity, we seek to describe a constructive service to the management of the organization within which it works, carried out not as a clerical activity but as an intellectual activity aimed at assisting the management at all levels to achieve their own objectives. This concept of internal auditing, whilst certainly not new in terms of time, is certainly new to very many people who could benefit from the use of it.

Perhaps a good way to start is to emphasize what our style of internal auditing is *not*. A clerical check of records and accounts is not our style of internal auditing. This very necessary function of ensuring that transactions have been correctly authorized and recorded should be an automatic function of any well-designed and well-managed system of administration and accounting. Neither is that admirable function known as the pre-audit of payments an internal audit function, although the man doing it is frequently called an internal auditor. This function again should be covered automatically by any well-set-up system for making payments. The system should include built-in checks to ensure that only payments which are in every way proper are in fact made.

Similarly the counting as a matter of routine of cash or stocks as part of the necessary control to avoid losses is not in itself internal auditing. Certainly we will, from time to time, find internal auditors doing these things, but when they do it as internal auditors in our meaning of that title they will be doing it for a purpose which is quite distinct from the day-to-day control by counting. We will come back to this.

Positive definition

Having noted some activities frequently described as internal auditing and claimed that they are not, let me now attempt a positive definition of internal auditing.

Internal auditing is an objective appraisal of the internal controls within an organization as a basis for service to all levels of management. It is itself an internal control which operates by appraising and reporting on the effectiveness of other controls.

To appreciate the definition fully we must understand what is meant by internal controls. Any organization intending to carry through some enterprise must first of all plan what it intends to do. It must then set up a suitable organization and devise and bring into being a suitable administrative system which will bring the organization to life. This administrative system will provide for the necessary recording of activities and transactions to form the basis for the accounting records. From these accounting records can flow both the necessary statements covering accountability and the information needed by those responsible for taking decisions about the enterprise.

We all recognize that good planning and organization, good administrative methods, good accounting and good feed-back of information to management are valuable aids to the effective management of any organization. To us internal auditors with the present-day outlook, the internal auditing function is to assist management to have effective control in all these areas and we do this by objective appraisal of the systems of control set up by management and by testing the effective operation in practice of these systems of control.

So, for example, in relation to the counting of stock, our outlook is that it is management's function to set up effective arrangements to inform themselves about the stocks they hold and to protect themselves suitably against losses of these stocks. The internal auditor will study the steps that have been taken and to judge their effectiveness he may make test checks by counting some items and confirming that the physical quantities agree with what management's system indicates should be there. He is testing the system, not counting the stock. This point may seem academic but if an internal auditor is to be fully effective it is essential that he recognizes this distinction otherwise he will make errors in his approach to the job. It is important too that those who employ him should recognize this distinction if his services are to be properly employed.

It might be right to make the point at this juncture that the existence of an internal audit department should not in any way be considered to relieve any other management of the business of any of their responsibilities. Internal audit as a function should be independent of all day-to-day activities.

I have made the point that internal controls should exist right through any business from the first ideas about a new activity or change in an existing activity: from planning to the eventual feed-back to management of what has in fact happened. This includes planning, organization, methods, recording, accounting, etc., and on all sides of the business such as buying, manufacturing, selling, distribution, etc. As internal controls cover all these matters, the internal auditor's activities should cover them all too and you will notice that the accounting or financial activity is only one small part of the whole.

An organizational situation frequently found in business is that the internal auditor is within the hierarchy of the chief financial man or the chief accountant. If the internal auditor is to have real freedom of access to sides of the business outside the accounting function and if he is to be able to report objectively on the accounting function, which

A paper delivered to the London and District Society of Chartered Accountants on February 9th.

is a very important element in the organization's internal controls, then he should more properly be outside the financial or accounting hierarchy.

If he is within the financial or accounting hierarchy this can be made to work reasonably enough in practice, but in my view this situation is fundamentally unsound. This is an important point which I would illustrate by two examples. You will, I am sure, be able to add others from your own experience.

Firstly, suppose that the financial man to whom the internal auditor is responsible has a personal bias towards one aspect of his responsibilities. He may be the type of man who is meticulous in ensuring that his financial historical accounts are always perfect, and he may do this at the expense of a sound up-to-date system of management information of which his business may be very much in need, or perhaps the opposite may apply. The internal auditor who is independent will be able to deal with this situation much more effectively than the one who is responsible to the man whose thinking and arrangements need to be changed.

Secondly, imagine a business where as a result of tradition or because of the influence of strong personalities the financial head is altogether excluded from some sections of the business. This does happen. Suppose the marketing department has its own administrative organization including such things as invoicing and stock control, and the strong marketing director adopts a 'hands off' attitude to the financial man. Exclusion of the financial man will mean also exclusion of his staff. It is essential to the full success of the internal audit operation that nobody can adopt a 'hands off' attitude towards the internal auditor except the man who runs the whole business. Once this independence is established it runs quite smoothly, and need very rarely be referred to. Without it the potential of the internal audit is restricted.

Independence

Since the internal auditor is an employee of the business, there are obviously limits to his independence but everything possible should be done to encourage in him an independent attitude. Putting him in the right place on the organization chart is a good beginning.

His real degree of independence, of course, is very much a matter of how he behaves. If he decides for himself what he will examine, always taking as his standard the overall good of the organization as a whole, and reports on his findings fully, objectively and fairly, then he can be independent in fact no matter where he appears on the organization chart, but it will be very much more difficult for him to live up to these ideals if he is under the direction of an executive responsible for only one side of the business.

For example, should this executive happen to be the chief accountant, it is almost inevitable that, sooner or later, internal audit staff will be diverted from their proper functions to meet an emergency in the accounting sphere. This appears fine from the chief accountant's point of view but kills the internal audit as an independent function which can be relied upon.

Independence and objectivity are essential in the approach to the internal auditor's job, but these characteristics alone will not produce the completely effective internal auditor. His approach should be constructive, keeping continually in mind the objectives of the management of the organization. His function is to appraise systems which management have set up to reach particular objectives, and he cannot form an opinion about the merits of a procedure unless he has continually in his mind just what the procedure is for. He should be careful to avoid recommending controls for controls' sake. He must satisfy himself, for example, that the cost of the control he proposes will not in fact be greater than the expected benefits to the organization through increased profit or reduced costs.

This constructive approach will lead him naturally to look forward in the way good management does, and not to be excessively concerned with the past. He should of course look back to ensure that the organization's internal controls have worked effectively and to do this, he will have to do some checking of records of individual transactions, but in looking back he should constantly maintain an attitude of seeking to prevent troubles in the future, not merely seeking out the errors of the past as an end in itself.

Managers in business always find themselves involved in some sort of conflict. The marketing man wants the product to be of top quality, but cheap, and readily available whenever the customer asks for it, but the factory manager wants production to be as simple as possible with an even rate of output and top quality raw materials delivered to him as he needs them. The financial man wants materials purchased cheaply, stocks to be of a minimum, and sales to be at high prices with minimum terms of credit. Effective management finds ways to reconcile the needs of each one in the best interests of the business overall. Similarly, the internal auditor finds himself in situations of conflict which, unless they are recognized and well handled, can make the fully effective discharge of his responsibility impossible.

His function is essentially a challenge to management at all levels. He examines the way in which they have set about their operation and, if that way is not leading in the most effective way to management's objectives, he criticizes it and writes reports about it. To do this effectively he himself needs real tact and ability and he needs the support of the higher levels of management.

Often conflicts arise through misunderstanding about the scope and nature of his job either on the part of the internal audit staff, or the management and staff being audited. It is therefore, very desirable that clear aims and objectives should be established and put down in writing. These should be the subject of discussion in draft amongst the key management of the business. If their acceptance and support for correct terms of reference can be gained, this will prove to be a very important step in the right direction.

These aims and objectives should be written to suit the needs of the particular organization, but I suggest that they should be both broad and flexible. Above all, they should not be restrictive because they should give encouragement to the auditor to use all his abilities to the fullest extent in furthering the interests of the organization.

Relations with external auditors

Clearly, the work of an effective internal audit is of great interest to the external auditors. First, it should lead to an improvement in internal control throughout the organization, making the audit easier; and secondly, it provides a partially independent check on the effective operation of the internal controls which the external auditor can use if he thinks fit on which to build his own opinions.

This is a matter for the external auditor alone[1], but I

[1] 'The External Auditor's Viewpoint' is the subject of a paper to appear later in this series.

would make two points from the point of view of the organization which is being audited. The first is that the internal auditor's ability to do constructive work for the organization should not be reduced by requests to spend time making predetermined clerical test checks of past transactions, or extensive verifications by count of stocks or cash or debtors. We do not want men of the calibre we want for internal audit doing this sort of work, but secondly, and on the other hand, we do want our audit fees to be minimized and we therefore want the external auditors to take full advantage of the work done by internal audit which is to some extent at least similar and on the same ground as their own.

The answer, I think, lies in setting up the simplest possible system of recording the areas in which internal audit has worked, the results of their audit, and very brief notes of what they did in order to arrive at their conclusions. With such records in existence, the external auditors can monitor the work of the internal auditor and thus make use of their own time to the maximum benefit of the client.

Why have an internal audit?

Briefly, internal auditing, when it is done well, is a constant spur to efficiency. At greater length we can see the following advantages:

Anyone entrusted with the assets of other people has a duty to use them for the purpose for which they were given, and to safeguard them whilst in use. In organizations above a certain size, those in authority must delegate authority to others but in doing so, they do not cease to carry responsibility. It is not practicable or in fact sensible that those carrying the highest responsibilities shall be frequently inspecting the work of those to whom they have delegated action, so it is sensible to delegate some part of this responsibility to follow up to an audit department which can make a continuous review and help to prevent undesirable departures from what is intended.

Such follow-up as higher levels of management may be able to make are often somewhat superficial. Internal audit gets beneath the surface and reveals what is really going on as against what appears to be going on.

Inevitably, higher levels of management must rely largely on reports or accounts to judge performance of those to whom they have delegated. Internal audit will improve the reliability of such reports or accounts.

As a by-product, an internal audit department provides a most valuable training and development experience for men who will be the managers of the future. They have to act and think as managers when at their work which takes them into all sides of the business to perform the function I have described. They gain experience and become very valuable people.

Finally, as another by-product, the work of the external auditors should be made easier, bringing benefits to the organization's own management and accounting staff as well as avoiding unnecessary fees based on time.

Taxation Case

Eastham v. Leigh London and Provincial Properties Ltd

In the Court of Appeal – February 16th, 1971

(Before Lord Justice RUSSELL, Lord Justice BUCKLEY and Lord Justice CAIRNS).

Capital gains tax – Short-term tax – Land – Building agreement – Licence to erect building – Then lease to be granted – Whether conditional contract – Whether three-year period exceeded – Finance Act 1962, sections 10, 16 (8), Schedule 9, paragraph 1 – Finance Act 1965, section 17 (5).

On June 22nd, 1962, the company made an agreement with the landlords of a building site for the demolition of the existing building and the erection of a new one within two years. The company was given leave and licence to enter the site for that purpose, and it was to:

'hold the said premises until the same shall be comprised in a lease to be granted as hereinafter provided as tenants at will to the landlords'.

The building was to be erected to the satisfaction of the landlords' surveyor. Until then the company was to pay such rent and perform such covenants and conditions as if the lease had actually been granted; and the landlords had various rights, including re-entry on default by the company, and they could extend the time for the completion of the work. By clause 4 if the building should have been finished to the surveyor's satisfaction at the end of the two years (or any extended period), and the company should have observed all the stipulations and conditions on their part contained, the landlords were to grant a lease for 125 years from June 24th, 1962.

The company duly performed its obligations within the prescribed period, and the lease was granted on May 12th, 1964. The date of the surveyor's certificate did not appear, but it could not have been sufficiently long before the grant of the lease to make any material difference. On July 28th, 1965, the lease was assigned for a sum greatly in excess of the expenditure incurred by the company.

It was contended for the Revenue that the contract was made a conditional one by clause 4; and that the three-year interval in section 10 (2) of the Finance Act 1962, had to be reckoned from the date of the grant of the lease. It was contended for the company that the contract was not conditional, because it did not depend on a condition outside the contract before it became absolute. The Special Commissioners decided in favour of the company.

Held (affirming the decision of Mr Justice Goff): the Special Commissioners' decision was correct.

FINANCE AND COMMERCE

Internal Efficiency of Thos Barlow & Sons

THOS BARLOW & SONS LTD is unashamedly and admittedly a conglomerate. It is a South African company which was not particularly well known here until March 1969 when, with the help of its London stockbrokers, John Prust & Co, the company obtained an official listing for its shares on the London Stock Exchange. Even so, the number of London shareholders was comparatively small but it will grow substantially as the result of the company's take-over of Rand Mines – one of the oldest South African gold mining companies – which, because it is in fact one of the oldest, now has majority interests outside the gold mining industry.

The Thos Barlow 1969–70 report and accounts for the year to September 30th last were dated November 13th, which in itself indicates a high degree of internal efficiency bearing in mind the ramifications of the group. The report puts the emphasis on a decade of growth which is summarized in the following figures:

	1961	1970
Group turnover	R33,860,000	R295,423,000
Group after-tax profit ..	R1,585,000	R12,733,000
Earnings per 10c share ..	5·4 cents	20·5 cents
Dividends paid per 10c share	2·7 cents	9·0 cents
Group net asset value ..	R12,459,000	R84,489,000
Number of employees ..	2,476	16,471
Number of shareholders..	2,577	13,281

Under six weeks

The report and accounts are lavishly presented: a fold out, double opening inside the cover shows the 'family tree' of the group and company detail, and a brief statement from the chairman then leads on to '1970 in review' comprising a dozen pages of illustrations and text. The chairman, Mr C. S. Barlow, in his statement, notes that 'our accountants and the auditors produced the final accounts this year in under six weeks from the end of our financial year and considering the work involved in consolidating 260 companies, large and small . . . this has been a very fine effort'.

Another fine effort is the style, detail and presentation of the accounts themselves and the extent of the information provided. The auditors, in what would in UK terms be an old-style 'verbose' report, certify that the accounts comply with the 'Companies Act 1926' – which proves this column's often-stated contention that example, voluntary change, professional standards and accepted practice are far more potent factors in raising the standard of company reporting than revision of company law itself. Company law revision rarely does little more than consolidate what has become already accepted.

The 'annexures' to the report are interesting. The first shows the extent of directors' interests in the equity; the second provides details of material changes in the boards of directors of subsidiary companies; the third gives detail of 'Resolutions of material interest passed at members' meetings of subsidiary companies', and the fourth provides three pages of detail of share allotments made during the year – showing the date, name of shareholder and the number of shares in each case.

Cash-flow control

The Barlow company was begun in 1902 as the South African agent of a Bury, Lancs, woollen mill family business. Agency operations were developed and in 1927 the Caterpillar Tractor company offered its dealership to the company. The company went public in 1940 and expansion and diversification began in earnest in the late fifties and early sixties.

At present the group employs about 80 qualified accountants and uses a sophisticated form of budgeting. In August of each year the main executive is presented with the budgets for the next financial year by each company management – profits, cash-flow and capital expenditure. Once accepted, the responsibility for achieving the figures lies with each company's management.

Estimates for each month are presented within five days of the end of the month and are followed two weeks later by full accounts, including balance sheet, profit and loss account and statistics. The main executive can, therefore, concern itself largely with companies not performing to budget and by concentrating on the weaker performers can gauge the management of those companies.

For cash-flow purposes the group operates a centralized banking service for all its wholly-owned subsidiaries. On the basis of August cash-flow statements, subsidiaries arrange an internal facility with the central banking service, at the 'office of Group Administration' and all surplus funds are banked centrally immediately. All companies are required every month to review their cash-flow in detail for the ensuing three months, and more generally for the coming year. A system of forecasting cash requirements on a five-year basis is also operated.

Complementary interests

By taking over the Rand Mines company, Barlow is not moving into an entirely new field of activity, although that is so in so far as the mining division of that company is concerned. But mining represents only 25 per cent of Rand Mines' assets and the company has been anticipating the eventual cessation of gold mining operations and has already been redeploying ploughed back profits and assets into industry and commerce.

THOS. BARLOW & SONS LIMITED

Consolidated profit and loss account for the year ended 30th September, 1970

Thos. Barlow & Sons Limited and subsidiaries	Notes	R	1970 R	R	1969 R
Group turnover	1		295,423,000		228,851,000
Trading profits	2		19,490,000		13,987,000
Dividends and interest received	3		1,722,000		1,718,000
Profit before taxation			21,212,000		15,705,000
Less **Taxation**	4		7,913,000		5,549,000
Profit for the year after taxation			13,299,000		10,156,000
Less attributable to outside shareholders in subsidiaries			566,000		730,000
Group profit after taxation			12,733,000		9,426,000
Profits, less losses on sale of investments, properties and shares in subsidiaries			89,000		477,000
Adjustment of prior years' taxation including deferred taxation			+179,000		—6,000
Note issue costs after deducting taxation			232,000		—
			12,769,000		9,897,000
Appropriations			6,094,000		5,130,000
Goodwill and amounts relative to investments and properties, written off	5	370,000		807,000	
Provision for future losses in a subsidiary		100,000		—	
Dividends of holding company	6	5,624,000		4,323,000	
Retained profits for the year			6,675,000		4,767,000
Adjustment of group's interest in retained profits of subsidiaries arising out of increased participations and part disposals			—72,000		+914,000
Retained surplus brought forward			26,096,000		20,415,000
Retained Surplus, 30th September, 1970			32,699,000		26,096,000

Profit and loss account for the year ended 30th September, 1970

Thos. Barlow & Sons Limited	Notes	R	1970 R	R	1969 R
Trading profits	2		1,463,000		934,000
Dividends and interest received	3		6,875,000		5,540,000
Profit before taxation			8,338,000		6,474,000
Less **Taxation**	4		646,000		422,000
Profit for the year after taxation			7,692,000		6,052,000
Profits less losses on sale of investments, properties and shares in subsidiaries			57,000		422,000
Adjustment of prior years' taxation			+152,000		+10,000
Note issue costs after deducting taxation			232,000		—
			7,669,000		6,484,000
Appropriations			5,677,000		4,555,000
Amounts relative to investments written off	5	53,000		232,000	
Dividends	6	5,624,000		4,323,000	
Retained profits for the year			1,992,000		1,929,000
Retained surplus, brought forward			15,313,000		13,384,000
Retained surplus, 30th September, 1970			17,305,000		15,313,000

Notes on consolidated profit and loss account and on the profit and loss account of Thos. Barlow & Sons Limited

1. Group turnover	1970	1969
Analysis of group turnover by division		
Earthmoving and agricultural machinery	65,123,000	53,240,000
Motor vehicles	50,650,000	42,995,000
Mechanical handling and engineering supplies	25,280,000	19,533,000
Manufacturing	40,978,000	33,908,000
Steel, timber and building supplies	104,977,000	67,807,000
Other	8,415,000	11,368,000
	R295,423,000	228,851,000

Geographical analysis of group turnover and contribution to group profit after taxation	Proportion of Group turnover % 1970	1969	Contribution to profit after taxation % 1970	1969
South and South West Africa	86.18	84.39	88.12	88.41
Other African countries	5.56	6.42	8.43	9.22
United Kingdom and other overseas countries	8.26	9.19	3.45	2.37
	100.00	100.00	100.00	100.00

The turnover for certain divisions includes the turnover from date of acquisition only of the respective companies included in that division. Inter-company turnover is included.

2. Trading profits are arrived at after charging or crediting the items set out below:	Group 1970	1969	Holding company 1970	1969
Interest paid				
Convertible notes	943,000	—	943,000	—
Registered notes and loan stock	606,000	683,000	479,000	595,000
Debentures and fixed loans	301,000	414,000	—	19,000
Bank and other borrowings	2,892,000	2,635,000	967,000	890,000
Subsidiary companies	—	—	47,000	58,000
	4,742,000	3,732,000	2,436,000	1,562,000
Less interest received from subsidiary companies	—	—	2,053,000	1,192,000
	R4,742,000	3,732,000	383,000	370,000
Depreciation and amortisation of fixed assets	2,542,000	2,122,000	128,000	124,000
Loss on sale of fixed assets	103,000	90,000	24,000	3,000
Expenses re formation of companies, increases in capital and, in 1969 London quotation costs	8,000	40,000	4,000	35,000

3. Dividends and interest received	Group 1970	1969	Holding company 1970	1969
Dividends–subsidiary companies	—	—	5,771,000	4,491,000
Less paid out of pre-acquisition profits	—	—	3,000	256,000
	—	—	5,768,000	4,235,000
Dividends–other	1,201,000	1,413,000	1,082,000	1,263,000
Total dividends	1,201,000	1,413,000	6,850,000	5,498,000
Interest received	521,000	305,000	25,000	42,000
	R1,722,000	1,718,000	6,875,000	5,540,000

4. Taxation charged in the accounts is made up as follows:	Group 1970	1969	Holding company 1970	1969
Current South African and foreign taxation	7,845,000	5,496,000	538,000	422,000
Less loan portion	151,000	—	13,000	—
	7,694,000	5,496,000	525,000	422,000
Amount set aside for deferred taxation	98,000	53,000	—	—
	R7,792,000	5,549,000	525,000	422,000
Charged against trading profits	R7,913,000	5,549,000	646,000	422,000
Less applicable to note issue costs	121,000	—	121,000	—

5. Goodwill and amounts relative to investments and properties, written off	Group 1970	1969	Holding company 1970	1969
Goodwill arising out of the purchase of new subsidiary companies for cash	320,000	490,000	—	—
Amounts written off properties	—	83,000	—	—
Amounts written off investments and subsidiaries	80,000	237,000	92,000	275,000
	400,000	810,000	92,000	275,000
Less amounts written off investments and subsidiaries in previous years now reversed	30,000	3,000	39,000	43,000
	R370,000	807,000	53,000	232,000

There are interests complementary to those of Barlow which will benefit from integrated management and marketing. Rand Mines, for example, is considerably interested in building and estate development and Barlow is the biggest supplier of timber and builders' hardware in South Africa. Barlow is also predominant in steel merchandising in South Africa as against Rand Mines' steel producing activities.

Barlow entered the UK in 1962 and now has interests in car and commercial vehicle distribution in the West country, distribution of mechanical handling and engineering supplies on a national basis, shipping and confirming and investment operations. The intention is to expand here where possible.

Land Bank Values

IT has long been the policy of Page-Johnson Builders, the building and estate development company, to maintain a very substantial land bank. Mr V. H. Johnson, the chairman, in his statement with the company's 1969–70 accounts, estimates that the land under the group's control is 'sufficient for the building of nearly 13,000 units'.

The land, he explains to shareholders, has increased in value substantially for a variety of reasons. The obtaining of planning permissions, the installation of main services and the successful development of the first stage of a large site are particular factors in land valuations, quite apart from the overall factor of the effect of inflation.

About a quarter of the Page-Johnson land bank is held in jointly-owned companies, the accounts of which are not consolidated. But with land values rising, the shares held in those jointly-owned companies have been valued by the directors at £400,000 above the book value of a mere £9,987.

Note 7 to the accounts states under the heading 'Investment in partly-owned companies', that 'the directors consider that the value of the shares is approximately £400,000 in excess of the book value'.

The indication of the value placed on the shares in jointly-owned companies would appear to be new to the latest accounts since the chairman, in his statement, says 'we value the shares of those companies at £400,000 in excess of last year's figures'.

Mr Johnson adds that 'the increased value of our land bank is not reflected in these accounts but will, of course, become part of our profits in future years as plots are sold off'.

THOS. BARLOW & SONS LIMITED

Consolidated balance sheet
30th September, 1970

Thos. Barlow & Sons Limited and subsidiaries	Notes	R	1970 R	R	1969 R
Source of capital					
Share capital			6,948,000		6,241,000
Preference shares	8	750,000		750,000	
Ordinary shares	8	6,198,000		5,491,000	
Share premium	9		44,842,000		42,123,000
Retained surplus			32,699,000		26,096,000
Interest of members of Thos. Barlow & Sons Limited			84,489,000		74,460,000
Interest of outside shareholders in net assets of subsidiaries			3,457,000		4,801,000
			87,946,000		79,261,000
Long term loans	10		31,110,000		18,952,000
Deferred taxation			364,000		296,000
			119,420,000		98,509,000
Employment of capital					
Fixed assets	11		33,201,000		29,602,000
Investments	12		18,189,000		17,898,000
Current assets					
Stocks and work in progress	13	79,002,000		65,037,000	
Debtors	14	63,583,000		55,479,000	
Cash at bank and deposits at call or short notice		2,333,000		1,465,000	
			144,918,000		121,981,000
Current liabilities					
Loans at call or short notice		5,870,000		4,865,000	
Amounts due to bankers	15	29,341,000		30,822,000	
Taxation less provisional payments		5,006,000		3,396,000	
Creditors and provisions		33,228,000		28,959,000	
Purchase consideration for investments		11,000		162,000	
Shareholders for dividend		3,432,000		2,768,000	
		76,888,000		70,972,000	
Excess of current assets over current liabilities			68,030,000		51,009,000
			119,420,000		98,509,000

C. S. Barlow
A. M. Rosholt } *Directors*

Johannesburg, 13th November, 1970

Balance sheet
30th September, 1970

Thos. Barlow & Sons Limited	Notes	R	R	R	R
Source of capital					
Share capital			6,948,000		6,241,000
Preference shares	8	750,000		750,000	
Ordinary shares	8	6,198,000		5,491,000	
Share premium	9		50,908,000		47,907,000
Retained surplus			17,305,000		15,313,000
Total capital and surplus			75,161,000		69,461,000
Long term loans	10		22,626,000		8,200,000
			97,787,000		77,661,000
Employment of capital					
Fixed assets	11		547,000		575,000
Interest in subsidiary companies	12		99,075,000		79,152,000
Investments	12		15,636,000		15,461,000
Current assets			9,608,000		7,129,000
Stocks and work in progress	13	6,594,000		4,323,000	
Debtors	14	3,012,000		2,803,000	
Bank balance and cash		2,000		3,000	
			124,866,000		102,317,000
Current liabilities			27,079,000		24,656,000
Loans at call or short notice		2,582,000		1,949,000	
Amounts due to bankers		17,389,000		17,494,000	
Taxation less provisional payments		8,000		227,000	
Creditors and provisions		3,657,000		2,183,000	
Purchase considerations for investments		11,000		35,000	
Shareholders for dividend		3,432,000		2,768,000	
			97,787,000		77,661,000

C. S. Barlow
A. M. Rosholt } *Directors*

Johannesburg, 13th November, 1970

Notes

on consolidated profit and loss account and on the profit and loss account of Thos. Barlow & Sons Limited

6. Dividends for the year	Group and holding company 1970	1969
Final dividend for year ended 30th September, 1968 on shares allotted after that date	—	4,000
On 6 per cent preference shares	45,000	45,000
On ordinary shares		
3½ cents per share declared 15th May, 1970 (1969 3 cents per share)	2,170,000	1,529,000
5½ cents per share declared 13th November, 1970 (1969 5 cents per share)	3,409,000	2,745,000
	R5,624,000	4,323,000

7. Directors' emoluments	1970 Paid by company	1970 Paid by subsidiaries	1969 Paid by company	1969 Paid by subsidiaries
In respect of services as directors	15,000	3,000	15,000	3,000
In respect of other services	402,000	267,000	461,000	245,000
	R417,000	270,000	476,000	248,000

Notes

on consolidated balance sheet and on the balance sheet of Thos. Barlow & Sons Limited

8. Share capital		1970	1969
Issued			
375,000	6 per cent cumulative preference shares of R2 each	750,000	750,000
61,982,509	ordinary shares of 10 cents each	6,198,000	5,491,000
		R6,948,000	6,241,000
Unissued:			
125,000	6 per cent cumulative preference shares	250,000	250,000
524,625	ordinary shares under option	52,000	42,000
47,463	ordinary shares, reserved as a result of the bonus issue for option holders, of which the rights to 35,000 shares have lapsed	5,000	—
700,000	ordinary shares available for future options	70,000	80,000
2,168,291	ordinary shares required to cover the 7% convertible unsecured notes, should all noteholders convert in full, with the bonus issue applicable thereto	217,000	197,000
9,577,112	ordinary shares which the directors may issue at their discretion	958,000	190,000
13,017,491		R1,302,000	509,000
Authorised:			
500,000	6 per cent cumulative preference shares of R2 each	1,000,000	1,000,000
75,000,000	ordinary shares of 10 cents each	7,500,000	6,000,000
		R8,500,000	7,000,000

Options have been granted and are outstanding as follows:	Shares
until 23rd October 1977 at 258.4 cents per share	74,625
until 6th February 1980 at 263 cents per share	50,000
until 16th July 1980 at 165 cents per share	400,000
	524,625
Options may be granted on ordinary shares to executive directors and other executives in the group	700,000

Options previously granted to executives in the group in respect of 350,000 shares until 30th September 1979 at 375 cents per share were cancelled during the year.

In terms of agreements to acquire certain investments the company is obliged to issue 5,837 shares in payment of the balance of the purchase consideration of R11,000 shown under current liabilities in the balance sheets.

9. Share premium	Group 1970	Group 1969	Holding company 1970	Holding company 1969
The amounts standing in share premium account are made up as follows:				
Balance 30th September 1969	47,907,000	23,418,000	47,907,000	23,418,000
Premiums on shares issued for cash	—	1,743,000	—	1,743,000
Premiums on shares issued on the acquisition of subsidiary companies	3,562,000	22,746,000	3,562,000	22,746,000
	51,469,000	47,907,000	51,469,000	47,907,000
Less capitalisation issue	561,000	—	561,000	—
	50,908,000	47,907,000	50,908,000	47,907,000
Less excess of cost of shares in subsidiaries over net assets, at dates of acquisition:				
Arising in prior years	5,784,000	4,539,000	—	—
Arising on acquisitions during the year	282,000	1,245,000	—	—
	R44,842,000	42,123,000	50,908,000	47,907,000

Save to the extent of R251,000 (1969: R251,000) the above amounts are subject to the restrictions imposed by section 86 quat of the Companies Act, 1926, and are not available for distribution as dividend.
In terms of the company's articles of association R1,000 of the share premium is reserved for capitalisation if options on 124,625 shares are exercised by option holders.

10. Long-term loans	Group 1970	Group 1969	Holding company 1970	Holding company 1969
I. Convertible unsecured notes 1975/84	16,426,000	—	16,426,000	—
II. Unsecured registered notes	7,500,000	6,500,000	6,000,000	5,000,000
III. Mortgage debentures and secured loans	3,761,000	3,872,000	—	—
Unsecured loans	3,423,000	5,880,000	200,000	500,000
Unsecured loan stock 1969/78	—	2,700,000	—	2,700,000
	R31,110,000	18,952,000	22,626,000	8,200,000

I. Convertible unsecured notes 1975/84–interest at 7% p.a. Note holders may convert R12.50 of each R25 of notes into 3.3 ordinary shares on the 30th June in any of the years 1972, 1973 and 1974. The remaining notes are then redeemable in ten equal annual instalments commencing 30th June 1975.

II. The unsecured registered notes are redeemable as follows:

(a) Issued by holding company–interest at 8¼% p.a. Redeemable in five equal annual instalments commencing 31st March 1978.	5,000,000	5,000,000
(b) Issued by holding company–interest at 9¼% p.a. Redeemable in five equal annual instalments commencing 15th May 1976.	1,000,000	—
(c) Issued by subsidiaries–interest at 8½% p.a. Redeemable in five equal half-yearly instalments commencing 31st July 1973	500,000	500,000
Redeemable on 30th September 1972.	1,000,000	1,000,000
	R7,500,000	6,500,000

The respective companies are empowered to redeem certain portions of the issues at par or at a premium in advance of the redemption dates.

III. Mortgage debentures and secured loans:
Assets of certain subsidiary companies are encumbered as reflected below:

	Debts secured 1970	Debts secured 1969	Net book value of assets encumbered 1970	Net book value of assets encumbered 1969
Mortgage debentures	1,650,000	1,800,000	3,633,000	3,987,000
Secured loans	2,111,000	2,072,000	4,528,000	4,266,000
	R3,761,000	3,872,000	8,161,000	8,253,000

The mortgage debentures are repayable in twenty equal annual instalments commencing in 1975–interest at 6½% p.a.

11. Summary of fixed assets	1970 Cost	1970 Accumulated depreciation or amounts written off	1970 Net book value	1969 Cost	1969 Accumulated depreciation or amounts written off	1969 Net book value
Group						
Freehold property	22,639,000	912,000	21,727,000	19,907,000	832,000	19,075,000
Leasehold property	1,051,000	276,000	775,000	725,000	239,000	486,000
Plant, equipment, motor vehicles and furniture	21,221,000	10,522,000	10,699,000	19,056,000	9,015,000	10,041,000
	R44,911,000	11,710,000	33,201,000	39,688,000	10,086,000	29,602,000

11. Summary of fixed assets continued

	1970 Cost	1970 Accumulated depreciation or amounts written off	1970 Net book value	1969 Cost	1969 Accumulated depreciation or amounts written off	1969 Net book value
Holding company						
Freehold property	17,000	3,000	14,000	17,000	3,000	14,000
Plant equipment, motor vehicles and furniture	899,000	366,000	533,000	1,021,000	460,000	561,000
	R916,000	369,000	547,000	1,038,000	463,000	575,000

The cost of freehold properties of the group shown above includes revaluations of certain properties owned by subsidiaries made at the time of purchase of the shares in the subsidiary companies concerned, or earlier. Land with a book value of R40,000 (1969: R40,000) purchased by a subsidiary company had not been transferred into the name of the company at the date of the balance sheet.

Movements of group fixed assets:	Freehold and leasehold properties 1970	1969	Plant, vehicles, equipment and furniture 1970	1969
Net balance at beginning of year	19,561,000	7,482,000	10,041,000	7,526,000
Newly acquired subsidiaries	973,000	11,971,000	543,000	3,001,000
Other additions	2,415,000	1,694,000	3,497,000	3,239,000
	22,949,000	21,147,000	14,081,000	13,766,000
Disposal of subsidiaries	158,000	24,000	—	558,000
Other disposals	138,000	1,461,000	992,000	1,146,000
Depreciation and amortisation	151,000	101,000	2,390,000	2,021,000
	R22,502,000	19,561,000	10,699,000	10,041,000

12. Investments

	Group 1970	Group 1969	Holding company 1970	Holding company 1969
Unquoted investments				
Shares at cost	15,843,000	15,699,000	14,810,000	14,773,000
Loans and amounts due	1,665,000	1,555,000	988,000	880,000
	17,508,000	17,254,000	15,798,000	15,653,000
Less amounts written off	172,000	202,000	172,000	202,000
	17,336,000	17,052,000	15,626,000	15,451,000
Quoted shares at cost				
Less amounts written off	853,000	846,000	10,000	10,000
	R18,189,000	17,898,000	15,636,000	15,461,000
Market value of quoted investments at 30th September	R853,000	971,000	20,000	31,000

Interest in subsidiary companies	Holding company 1970	Holding company 1969
Shares at cost	47,095,000	40,908,000
Amounts owing by subsidiaries	56,689,000	42,513,000
	103,784,000	83,421,000
Less amounts written off	341,000	298,000
	103,443,000	83,123,000
Less amounts owing to subsidiaries	4,368,000	3,971,000
	R99,075,000	79,152,000

	% of ordinary share capital held (directly or indirectly)	Group Shares and debentures 1970	Group Shares and debentures 1969	Group Loans and amounts due 1970	Group Loans and amounts due 1969
Quoted investments					
Minor investments—holdings not exceeding 5%	—	853,000	846,000	—	—
Unquoted investments					
Ameshoff Street Investments Ltd.	50%	13,979,000	13,979,000	675,000	600,000
Consolidated Citrus Containers (Pty) Ltd.	25%	125,000	112,000	—	—
Hyster Africa (Pty) Ltd.	50%	200,000	200,000	15,000	15,000
Interpak Holdings Ltd.	20%	581,000	581,000	203,000	207,000
Hammett & Hodge (Pty) Ltd.	50%	37,000	—	33,000	—
Brollo Africa (Pty) Ltd.	—	—	362,000	—	—
Various other companies—holdings not exceeding 50%	—	921,000	465,000	739,000	733,000
		R15,843,000	15,699,000	1,665,000	1,555,000

Ameshoff Street Investments Limited owns 60.4% of the equity share capital of Barsab Investment Trust Limited which is a company quoted on The Johannesburg Stock Exchange.
Except for minor investments the above investments are in companies incorporated in South Africa.

13. Stock and work in progress
Stocks on hand are valued at or below cost. In terms of a standard trade agreement, one supplier to a subsidiary company had a lien at 30th September 1970 over certain stocks and book debts of that subsidiary company.

14. Debtors	Group 1970	Group 1969	Holding company 1970	Holding company 1969
Loan portion of taxation	1,049,000	896,000	117,000	117,000
Hire purchase debtors less unearned finance charges	3,519,000	3,183,000	50,000	40,000
Trade and other payments in advance less provision for bad debts	59,015,000	51,400,000	2,845,000	2,646,000
	R63,583,000	55,479,000	3,012,000	2,803,000

Included among debtors is an amount of R10,000 (1969: R17,000) being the amount outstanding of a loan made by an overseas subsidiary company, to a director of a fellow overseas subsidiary company. The loan was made for the purpose of enabling the director, who is also a director of the holding company, properly to perform his duties as an officer of the overseas company.

15. Amounts due to bankers
Amounts due to bankers by certain overseas subsidiary companies amounting to R1,190,000 (1969: R1,557,000) are secured by a charge on the assets of those subsidiary companies.

16. Commitments
Commitments for capital expenditure, not provided in the accounts, amount to R2,819,000 (1969: R1,219,000) in respect of the group.

17. Contingent liabilities	Group 1970	Group 1969	Holding company 1970	Holding company 1969
There are contingent liabilities in respect of the following:				
Bills, lease and hire purchase agreements discounted	R6,893,000	2,516,000	454,000	94,000
Guarantees for amounts owing	2,811,000	1,793,000	2,722,000	2,249,000
For which counter indemnities are held totalling	193,000	224,000	193,000	224,000
Claims	32,000	40,000	—	—
Guarantees for employees' housing loans	58,000	52,000	42,000	28,000
Guarantees of the overdraft facilities of certain associated companies	24,000	17,000	—	—

In addition the holding company has guaranteed the overdraft facilities of certain subsidiary companies.

18. Conversion of foreign currencies
For the purpose of consolidation, Rhodesian currency has been converted at the rate of Rh.$1 = R1 and Australian currency has been converted at the rate of Australian $1 = R0.795. Sterling and allied currencies have been converted at the rate of £1 = R1.714 with the exception of fixed assets and long term liabilities which have been converted at rates ruling at the dates of the transactions. Other currencies have been converted at the rates ruling on 30th September 1970.

19. Group accounts
To avoid delay, the accounts of certain overseas subsidiaries have been prepared to 31st August 1970, which accounts have been used for purposes of consolidation.
In the case of a subsidiary in which the holding company owns 50% of the equity, the group accounts include only the figures reflecting the holding company's interest therein.

Report of the auditors

To the members of Thos. Barlow & Sons Limited

We have examined the books and accounts and vouchers of the company and have satisfied ourselves of the existence of the securities. We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company, so far as appears from our examination of those books.
The above balance sheet [reproduced on page 493] and the attached profit and loss account are in agreement with the books of account and in our opinion, and to the best of our information and according to the explanations given to us, the said accounts together with the accompanying notes, give the information required by the Companies Act, 1926, in the manner so required; the balance sheet gives a true and fair view of the state of the company's affairs as at 30th September 1970 and the profit and loss account gives a true and fair view of the profit for the year ended on that date.
We have also examined the annexed consolidated balance sheet and consolidated profit and loss account of the company and its subsidiaries with the audited accounts of those companies. The accounts of certain subsidiaries have been audited by accountants other than ourselves. In our opinion such consolidated accounts with the accompanying notes, have been properly prepared in accordance with the provisions of the Companies Act, 1926, so as to give a true and fair view respectively of the state of affairs and the profit of the company and its subsidiaries dealt with thereby, so far as concerns the members of the company.

Halsey, Button & Perry,
Chartered Accountants (S.A.)

Johannesburg, 13th November 1970

CITY NOTES

THERE is currently in the stock-market a confrontation of views between those who see the recent Budget in terms of firm re-expansion and an eventual solution to present economic and particularly inflationary problems, and those who insist that the problem of wage inflation will prove too big for the Budget to solve.

It is difficult to be neutral in this kind of argument but the middle course is probably the right one. The Budget will prove to be part of a process of solving the wage inflation problem but is unlikely to prove the one and only solution.

Nearer the point of solution will be an agreement between Government and unions that wage inflation has to stop and that the only real way to stop it is by agreed and voluntary action. If the Budget helps the development of a fiscal climate in which agreement between Government and unions can develop, then so much the better.

This is the kind of view that should eventually lead to a brighter view being taken of equity prospects. But it should be a cautious view rather than a rampantly bullish one.

There is no real case for a rush away in equity prices but there is a case to be made for selective buying.

* * * *

RARELY does the London Stock Exchange Council make a domestic recommendation and have it turned down by Stock Exchange members. But the recommendation on advertising could come near to being an exception to the rule. There has undoubtedly been a strong 'anti' response to the Council's view, and the size of some of the firms describing themselves as small and therefore likely to suffer because of the bigger firms' advertising is an eye-opener probably even to the clients of the firms concerned. But the basic fear seems to be that advertising will eventually quicken the trend of broker mergers and hasten the formation of huge broking organizations on American lines and thereby crowd out even more the small broking firm still managing to provide personal instead of impersonal computerized service.

* * * *

WITHIN a few weeks the Treasury and the Bank of England are expected to make known some changes in the present system of monetary and credit control. This could mean the end of the Bank deposit rate cartel in its present form and the introduction of tiered bank deposit and lending rates according to length of term of deposit or loan. This could lead to a refining of the present blunt instrument of control by directive on lending and could also mean a more flexible use of special deposits. Advocates of the introduction of a double Bank rate system – external and internal rates – are unlikely to find the authorities receptive.

* * * *

THE City is waiting with decreasing patience for some hard news to come out of the deliberations between the British Petroleum and Burmah Oil companies. Basically, Burmah want to exchange their BP stake for BP exploration and development rights and then to do a Dunlop-Pirelli style link with the American 'Conoco' group. The BP view of this proposal was decidedly icy at first but talks have been going on to find out just what it is that Burmah want. BP, it is officially stated, will do what is in BP shareholders' best interests. Burmah Oil, of course, is BP's second biggest shareholder after the Government.

RATES AND PRICES

Closing prices, Tuesday, April 13th, 1971

Tax Reserve Certificates:-(25.2.70) Companies 5½%; 3% surrendered for cash; Personal 4%

Bank Rate

Nov. 9, 1967	6½%	Feb. 27, 1969	8%
Nov. 18, 1967	8%	Mar. 5, 1970	7½%
Mar. 21, 1968	7½%	April 15, 1970	7%
Sept. 19, 1968	7%	April 1, 1971	6%

Finance House Base Rate – April 1st, 1971. 8%

Treasury Bills

Feb. 5	£6 15s 6·20d%	Mar. 12	£6·6659%
Feb. 10	£6·7668%	Mar. 19	£6·6416%
Feb. 19	£6·7299%	Mar. 26	£6·6242%
Feb. 26	£6·7157%	April 2	£5·8293%
Mar. 5	£6·6940%	April 8	£5·7849%

Money Rates

Day to day	4⅜–6%	*Bank Bills*	
7 days	4¼–6%	2 months	7–7⅛%
Fine Trade Bills		3 months	7–7⅛%
3 months	7½–8%	4 months	7–7⅛%
4 months	7½–8%	6 months	7 1/16–7 3/16%
6 months	7¾–8%		

Foreign Exchanges

New York	2·4161	Frankfurt	8·7845
Montreal	2·4332	Milan	1503·90
Amsterdam	8·7155	Oslo	17·2245
Brussels	120·03	Paris	13·3445
Copenhagen	18·0900	Zürich	10·3930

Gilt-edged

Consols 4%	43⅛	Funding 6% 1993	70
Consols 2½%	27½	Funding 6½% 85–87	79¼
Conversion 3½%	37⅜	Savings 3% 65–75	86 15/16
Conversion 5% 1971	99¾	Treasury 6½% 1976	96½
Conversion 5¼% 1974	96⅜	Treasury 3½% 77–80	74¾
Conversion 6% 1972	99¾	Treasury 3½% 79–81	72¼
Funding 3½% 99–04	44½	Treasury 5% 86–89	64¾
Funding 4% 60–90	97½	Treasury 5½% 08–12	61¼
Funding 5¼% 78–80	83¾	Treasury 2½%	27⅛
Funding 5½% 82–84	79	Victory 4%	95½
Funding 5¾% 87–91	69½	War Loan 3½%	38⅝

The Institute of Chartered Accountants in England and Wales

Special and Ordinary Meetings of the Council

At special and ordinary meetings of the Council held on Wednesday, April 7th, 1971, there were present:

Mr C. Croxton-Smith, President, in the chair; Mr A. H. Walton, Deputy President; Mr D. S. Morpeth, T.D., Vice-President; Messrs J. F. Allan, J. A. Allen, G. R. Appleyard, B. D. Barton, Sir Henry Benson, G.B.E., Messrs D. A. Boothman, N. Charlton, L. H. Clark, D. A. Clarke, R. W. Cox, S. Dixon, P. H. Dobson, S. M. Duncan, J. V. Eastwood, Professor H. C. Edey, Messrs S. Edgcumbe, W. W. Fea, E. J. Frary, J. W. G. Frith, J. P. Grenside, R. F. Griffiths, S. R. Harding, W. Hare, M. R. Harris, J. S. Heaton, J. A. Jackson, A. W. John, C.B.E., G. B. Judd, R. O. A. Keel, S. Kitchen, Sir Ronald Leach, C.B.E., Messrs M. G. Lickiss, B. A. Maynard, W. R. McBrien, E. C. Meade, W. G. Medlam, S. A. Middleton, W. Bertram Nelson, C.B.E., E. J. Newman, F. E. Price, C.B.E., D. G. Richards, D. W. Robertson, J. D. Russell, K. J. Sharp, T.D., R. G. Slack, H. G. Smith, G. Tattersall-Walker, A. G. Thomas, R. P. Tovey, D. N. Walton, J. Whitehead, R. G. Wilkes, O.B.E., T.D., J. C. Montgomery Williams, R. G. Williams, E. K. Wright.

Development Policy Education, Examination and Training Requirements

The Council approved the following statement for publication:

1. A Joint Working Party of the Education, Examination and Articled Clerks Committees has now completed the first stage of a comprehensive review of the education, examination and training requirements of future members of the Institute.

2. One of the outstanding features which has influenced the Working Party has been the enormous expansion of the school sixth form and of higher education in recent years, and in particular the expectation that the number of students in higher education will double between 1970–71 and 1980–81. The Institute must keep pace with this development; indeed it should try to be ahead. This will involve continued close co-operation with universities and colleges.

3. In view of these developments, the Council feels that the pattern of education and training of future members should be regarded as having two stages, which can conveniently be described as the pre-professional stage followed by the professional stage. In the first stage the student should acquire a broad base of professionally relevant education in universities and colleges; in the latter stage the Institute retains a responsibility to demand its own practical tests before admission to membership.

4. Further discussions will have to take place before a detailed scheme can be put before members. The Council feels, however, that an early announcement should be made on those proposals which are of first priority, together with a broad statement of intent with regard to the rest of the scheme. This announcement is necessary, if only to ensure that resources in both the public and private sectors are made available so that the implementation of the proposed developments can be made at the earliest possible date.

5. The proposals which follow are based on the assumption that the two 'A' level entry standard will apply from July 1st, 1971 (subject to transitional arrangements already published). They provide, generally, for two routes to qualification, viz:

(*a*) the graduate route – a course of about six years from leaving school including three years at a university or college;

(*b*) the non-graduate route – a course of about five years from leaving school including one year at a college.

Education and Examinations

(a) Graduates of United Kingdom and Irish Universities and of the CNAA

6. The proposals will necessitate a re-appraisal of the existing Joint Standing Committee scheme to provide for a new form of 'approved' degree relevant to the revised structure of examinations. The Joint Standing Committee will be invited to undertake this re-appraisal. Consideration will be given to a pattern of examination exemptions designed to encourage university and CNAA graduates with the object of moving towards a graduate level profession at a future date. It is not intended, however, to move to a position of graduate only entry to the exclusion of school leavers with acceptable 'A' level standards who, for a variety of reasons, do not obtain a place on a degree course.

7. The new pattern of examinations will include a Foundation examination followed by three Institute examinations. All graduates and non-graduates will be regarded as having satisfied the Foundation stage by successful completion of a course at a university or college. Complete exemption from the first Institute examination will be available to graduates who have obtained approved degrees; partial exemption will be available to those who have obtained relevant degrees. Other graduates and non-graduates will not be exempted from this stage. The two remaining Institute examinations are to be successfully completed by all students before admission to membership.

8. In this connection the syllabus exposure draft issued in October, 1970, is still relevant but is being reconsidered to accord with the new proposals.

9. In addition the scheme of examinations is designed to ensure that a candidate has an appropriate depth of understanding of the subjects which he will require at the beginning of his career. It is to be expected that he will undertake further post-qualifying education and training in order to equip himself in areas requiring special expertise.

(b) Non-graduates (i.e. all entrants other than those referred to in paragraph 6)

10. It is hoped that the initial nine months' full-time course for non-graduate entrants will be made compulsory from September 1972. From that date the course will not be counted as study leave nor as qualifying service whether taken before or after entry into contractual service. Successful completion of the course will give exemption from the Intermediate so long as the present pattern of examinations continues. With the new pattern, however, the position will be that outlined in paragraph 7 above.

11. These courses will be confined to colleges which are either within the polytechnic structure or provide courses leading to a CNAA degree in business studies.

12. The Council is aware that some members have criticized the existing full-time courses due to their lack of practical relevance. However, their purpose has been mainly to give an educational foundation to the practical training to be undertaken in a professional office. With the acceptance of the two stages of education and training referred to in paragraph 3 and with the placing of the course outside of the period of contractual service together with the implementation of a new structure of examinations, the Council is confirmed in its view that the essential object of the course should be the education of the student in relevant subjects so as to produce a better informed and more flexible approach to problems arising in the course of his career.

Training

13. The training proposals are based on the assumption that a contractual relationship will exist between a student and a member in practice.

14. These proposals provide for a training contract of three years' duration for the graduate and four years for the non-graduate. The period of four years for the non-graduate does not include the compulsory nine months' course which must be taken before or at an early stage of the training contract.

Recruitment of Junior Staff to Members' Offices

15. The Council has already made its position clear with regard to routes of entry into the profession for those who take up employment in the office of a member without having obtained a two 'A' level standard. These routes, which are set out in the explanatory memorandum supporting Resolution No. 1 to be proposed at the special meeting of members on May 12th, 1971, are as follows:

– those leaving school at 16 years of age with four 'O' level (or equivalent) G.C.E. passes will be able to take up employment in a member's office and follow a two years' course of part-time study on a day release or evening basis for the Ordinary National Certificate in Business Studies available locally at a wide range of colleges of further education. These courses cover such relevant subjects as accounting, law and economics. Passes obtained by a successful student in acceptable subjects at 60 per cent or higher standard are regarded as 'A' level passes in a G.C.E. examination so that successful completion of the course at this standard would enable him to commence his course of education and training to become a chartered accountant. Those who do not achieve this standard will at least have followed a course of education and training in relevant subjects and have acquired a nationally recognized award at technician level.

– by qualifying for entry as a mature student. Under the existing bye-laws concessions are available under which a school leaver taking up employment in a member's office could become eligible to commence a course of education and training for the qualification of chartered accountant provided he completes not less than ten years' acceptable experience and is at least 27 years of age.

Sandwich Degree Courses – Practical Experience

The Council approved the following statement for publication to define the extent to which an articled clerk following a sandwich degree course may count his practical training commitment towards valid articled service. Such period or periods will be accepted provided that:

(*a*) they are spent within the United Kingdom on the principal's business of public accountant;

(*b*) no single sandwich period be less than four months;

(*c*) the balance of articled service be not reduced to less than two continuous years.

Admissions to Membership

The following were admitted to membership of the Institute:

Abbott, Stuart Giles, Cleethorpes.
Adams, Paul Francis, Crowborough.
Adamson, (Miss) Rhona Claire, Sheffield.
Adderley, The Hon. James Nigel Arden, London SW1.
Adeosun, Oluwole Alani, B.SC., London SE22.
Aggarwal, Pran Chand, London NW9 0TR.
Agombar, Michael George, London E14 9ET.
Agostini, Richard Arthur Ralph, London W9.
Agutter, David Jeremy, Bushey.
Ahmadi, Keyvan, Teheran.
Ahmaduzzaman, Quazi, London N8.
Ahmed, Iftikhar, London W2.
Ahmed, Mesbah Uddin, London SW10.
Akwensivie, Jonas Kwaku Foli, London W11.
Alam, Nurul, London SW5.
Alban, Michael David, London W12.
Alder, Samuel George, B.A., Richmond.
Alexander, Peter John Lander, Birmingham.
Allen, Patrick William, Salisbury.
Allum, Peter Gordon, London NW6.
Aluko, Joseph Folusho, Braintree.
Anderson, Eric Hatty, West Chiltington.
Andrews, David Scott, Swansea.
Apletree, John Anthony, London NW11 6QX.
Arden, Richard William, Marlborough.
Armitage, Terence Peter, Liversedge.
Armstrong, Terence Michael, B.SC., Bradworthy.
Arratoon, David Gregory, Scarborough.
Arrowsmith, John Michael, B.SC., Ruthin.
Ash, Geoffrey Richard, B.A., London SW2.
Aspinall, Roy, Shipley.
Atkinson, David Blythe, Derby.
Atkinson, Keith, Grimsby.
Attwood, Anthony Richard, Eynsford.
Auber, John Richard Gerratt, London SW13.
Aukett, Tony James, Eastbourne.
Awan, Muhammad Sarwar, Newcastle upon Tyne.
Ayadurai, Rajeswaran, London SW7.
Aylwin, Andrew Charles, London SW19.
Ayton, Peter George, Herne Bay.
Azam, Mohammed, London W12.

Bache, Richard Henry, West Hagley.
Bacon, Roger Philip, Barnehurst.
Bage, Alan William, Middlesbrough.
Baig, Mirza Arshed, London W2.
Bailey, Andrew James, Northampton.
Bamber, Anthony John, Nuthall.
Banatvala, Phiroze Edal, Redbridge.
Banerjee, Ranajit Kumar, London N10.
Barclay, Gordon Dunbar, B.SC., Corby.
Barber, Paul Romney, Brentwood.
Barrie, (Mrs) Carol Hazel, Birmingham.
Bartlett, James Michael Gilbert, Morpeth.
Barton, Roy, Newport, Isle of Wight.
Barton-Smith, Colin, Solihull.
Beck, Martin Christopher, London SW2.
Bedford, Keith Holliday, Chelmsford.
Beeson, Russell Bruce Clifford, B.A., Warwick.
Bell, Michael John, Mobberley.
Bell, Michael Robert John, London E4 8EA.
Bell, Stanley Edward, Cullercoats.
Bendall, Peter Harry, Four Oaks.
Benedict, Neil Paton, Long Ditton.
Bernstein, Henry Alan, Ilford.
Berridge, David, Hull HU5 5NY.
Bevan, Simon James Platel, Newcastle upon Tyne.
Bhandari, Arvind, Jaipur.
Bhandari, Raghbar Dayal, London NW11.
Bhandari, Tarsem Lal, London NW11 9RG.
Bhatia, Ranjit, London W1.
Bhatti, Abdul Hafiz, London SW11.
Bhimji, Mohamed Gulamhusein Punja, London W12 9JF.
Binns, Brian, Hull.
Bishop, Michael Ian, Tytherington.
Blatt, Jeffrey Malcolm, London N11.
Bligh, Richard Anthony, Guildford.

Bloxidge, Paul William, Birmingham.
Booth, Alan, Sheffield.
Borthwick, Patrick James Joseph, London W8.
Bowen, Robin Andrew, Virgin Islands.
Boxall, Malcolm James, Great Bookham.
Boylan, Mark Gerard, Hong Kong.
Brading, Lawrence Albert David, B.A., London N9.
Braines, John Joseph, B.A., Kettering.
Bramall, David John Anthony, Manchester.
Brandford, Graham Stanley, London W14.
Brayford, Philip Geoffrey, Sale.
Brierley, David William, Whitworth.
Briggs, Graham, B.A., Birmingham.
Briggs, John Howard, Goole.
Briggs, Kevin Edward, Prudhoe-on-Tyne.
Bright, Sidney Lewis, Westcliff-on-Sea.
Brown, Christopher Mark, North Harrow.
Browning, Robert Kenneth, London SE23.
Bruton, Graham Charles, Milford Haven.
Buchanan, Leslie William, Tewkesbury.
Bugden, James Edwin, Hove.
Bullett, Michael Leonard Searchfield, B.SC., London NW8 6ES.
Bunbury, Philip Graham, Solihull.
Burke, Christopher Michael, Northampton.
Burton, Anthony Pelham, Shepperton.
Bussy, Paul Stephen, Bromley.
Butterfield, Dennis, Swansea.
Byron, Alan Robert, St Helens.

Caldera, Holupathirage Bandula, London NW11.
Callison, Ralph William, Cleethorpes.
Cameron, Michael Graeme Stuart, Wolverhampton.
Cane, Hugh Eric, Tunbridge Wells.
Caplan, Simon Anthony, Bushey Heath.
Capper, Robert Ernest, London NW6.
Cardinez, Keith Gregory, Trinidad.
Carroll, John McCreadie, Enfield.
Carter, Graham William Vincent, Reading.
Carter, Mark Lawrence, Gloucester.
Carter, Paul Mark, London SW15.
Carter, Ronald Gordon, Harrow.
Chabot, Simon Charles, Hove.
Chambers, Keith, Sleaford.
Chapman, Ian Ernest, B.SC., Thornton Heath.
Chapman, John Lionel, B.ENG., Manchester.
Chapman, Richard Owen, Nottingham.
Chapman, Stephen Cyril, Keighley.
Chappell, Michael John, Ilford.
Chenery, Trevor John, Croydon.
Chicksand, Stanley Barry, B.SC., Southampton.
Chissick, Alan, Ilford.
Chong, Tet On, Croydon.
Chong, (Miss) Theresa Choon-Ngor, London NW2 4HL.
Chrimes, Patrick, Liverpool.
Clarke, Christopher Michael, London N2.
Clark, John Henry, New Malden.
Cleaver, Goronwy James, Cardiff.
Clifford, John Andrew, Sidmouth.
Cobb, Alan Arthur, Beckenham.
Coe, Brian George, Croydon.
Coe, Robert Michael, B.A., Wembley.
Cogswell, (Mrs) Pamela, London EC2.
Cohen, Barrie Malcolm, London N16.
Cohen, Jonathan, B.A., Gerrards Cross.
Cohen, John Allan, London W1.
Cohn, Ronald Peter Hardy, B.SC., London NW3.
Coia, Gusto Ronald, London EC1.
Cole, Graham, B.A., London SW11.
Coleman, John Donald, Nazeing.
Coleman, Jonathan James Mathew, B.A., Polegate.
Colton, Charles Hugo, Chalfont St Peter.
Conway, George, B.SC., Gloucester.
Conyers, Martyn Gofton, London SW13.
Cook, Jeremy Charles Rixar, B.A., Barnt Green.
Cook, Robin Peter, Harlow.
Coombs, Stephen Kenneth, Bristol.
Cooper, Nigel Robin, Hatfield.
Corbett, Richard Edward, Birmingham.
Corrie, John Roy, B.A., London NW3.
Cranston, (Miss) Vivien Elizabeth, London E4
Crausay, Norman William, London SE12.
Creasy, Paul, London WC2.
Crick, David William, London SW16.
Crook, David Thomas Charles, Northfleet.
Cross, Geoffrey William, Wolverhampton.
Crowley, Trevor Patrick, London N13.
Cusworth, Stuart Michael, Chesterfield.

Czarniecka, (Miss) Anna Antonina, LL.B., London W1.

Dale, John, Ilkley.
Das Gupta, Debajyoti, Greenford.
Davenport, John Anthony, B.A., Longton.
David, Irving Stephen, London NW11 7ET.
Davies, Ian Frank, B.SC., Shrewsbury.
Davies, Philip Antony, Cardiff.
Davis, Alan George, Birmingham.
Davison, Richard Merryn, Bath. (Resident Abroad.)
Dawson, David Andrew, Hull.
Dawson, Rodney John, Birmingham.
Day, Trevor Joseph Frederick, Leicester.
Deacon, Timothy John, Birmingham.
Dean, Roger Duncan, Leeds.
De Boer, Christopher Michael, B.A., Brighton.
De Chazal, Alexander David, Brough.
De Chazal, Paul Richard Raymond, London EC4.
Delahunty, John Joseph, Wembley.
Dergiman, Mark Witold Kazimierz, London N12.
De Winter, Denis Charles, London EC1Y 2DA.
De Winton, Francis William Peter, Winchester.
Dhanji, Sadrudin Akbarali, London W2.
Di Giuseppe, Peter Ettore, B.SC., Enfield.
Dimmock, Trevor Thomas, Bletchley.
Dodhia, Rasmikant Premchand, London N2.
Douglas-Home, Simon, London W1.
Dowdeswell, Peter Robert, Harlow.
Downing, Michael Thomas, Hoddesdon.
Drage, Geoffrey Nicholas, B.SC., Surbiton.
Drayton, Robin Michael, London SW15.
Dryburgh, Robert Hutcheon Robertson, London N6.
D'Silva, Kenneth Edgar Joseph, London NW3.
Dudley, Guilford Paul Julian, Peacehaven.
Duerden, Anthony, Blackburn.
Duggal, Sudarshan Kumar, Newcastle upon Tyne.
Duncan, Ian Stuart, London E17.
Duncan, Roger, Ponteland.
Dunckley, Peter John, Tadworth.
Dutton, Robert William, Warley.

Eastham, Robert Murrough, Guildford.
Edmonds, (Miss) Gillian Dominy, London EC2.
Edmonds, Jeffrey Michael, Surbiton.
Edwards, Cecil Arthur Wignarajah, London N12 0BX.
Edwards, Frederick Noel, Wilmslow.
Ellaway, John Edward, B.SC., London EC2.
Elliott, Colin Geoffrey Grahame, B.SC., Canterbury.
Elliott, Keith Adrian, Wilmslow.
Emery, David, Wallasey.
Emery, John Keith, New Malden.
Emmerson, George Alexander, B.A., South Croydon.
Erhardt, Robert David, Esher.
Escott, Michael Bickham, Worthing.
Evans, John David, Ravenshead.
Everist, John Colin, Crowborough.
Everson, Roger Frank, Wimborne.
Every, Henry John Michael, London SW5.

Farmer, Andrew Peter, Heswall.
Farrell, Brian Patrick, London W10.
Farres, Peter Robert, Edgware.
Farrington, Robert William, Birmingham.
Faruqi, Hassan Ahmad, London SW15.
Fatona, Emmanuel Aibinu, London EC2.
Fayers, Geoffrey Frederick, Sutton.
Felman, Philip Terry, Cardiff.
Fenner, Vere Anthony, Havant.
Fernandes, Richard John, Teddington.
Ferris, Roger, Sutton.
Figgitt, Christopher Maurice, Stratford-on-Avon.
Finnemore, Jeffrey Michael, Burton-on-Trent.
Finning, Denis Sydney Robert, M.A., London SW19.
Foo, Siang Mong, Greenford.
Forbes, Robert Mackenzie, Winchester.
Ford, John Barry, Loughton.
Ford, Peter John, Tonbridge.
Fortune, Kenneth Frank, Shipley.
Foster, Peter Anthony, London W2 2RE.
Francis, Paul David, Camberley.
Franklin, David Richard, Bury St Edmunds.

Fraser, Ian Anthony, Ewell.
Freeman, Peter Edward, Bakewell.
Fuller, David Ronald, London SW3.
Fuller, Kenneth Michael, Wetherby.
Furse, Kenneth Henry, Cheriton Bishop.

Gater, Maxwell Cruickshank, Devizes.
George, David Stuart, Northwood.
George, Richard Augustine, Brackley.
Gilks, David John Ellis, Four Oaks.
Gillard, Roger, Doncaster.
Gittins, Christopher David, M.A., London W8.
Glasby, John, Liverpool.
Glenn, Christopher James, Henley-on-Thames.
Glicher, Julian Harvey, Wembley.
Glickman, Alan Leslie, London N4.
Goldstein, Henry Alexander, London E5.
Goodley, Eric, Egham.
Goodman, Geoffrey Ian, London NW11.
Goodman, Keith David, London N3 1PB.
Goodman, Paul, Leicester.
Goodman, Simon James, Norwich.
Gosling, Keith Graham, Hathersage.
Gradel, David, Salford.
Graham, (Mrs) Elsa Idalie, Wolverhampton.
Graves, (Miss) Janet Lesley, South Croydon.
Greaves, Terence John, Bingley.
Green, Andrew, Worcester Park.
Green, Philip Patrick, Preston.
Greenhalgh, Melvyn Ellis, Bolton.
Greenidge, Harold Ian, London W2 5DS.
Greensted, John Charles, Chislehurst.
Greenwood, Robert Andrew, Halifax.
Grier, Robert, Reading.
Griffith, Paul Jeremy, Dursley.
Griffiths, Peter Thomas, Horsham.
Griffiths, Richard George, Derby.
Gronnow, John Derek, Wrexham.
Gross, Charles Edward Grant Kennedy, London SW12.
Guntrip, Anthony John, Beckenham.
Gupta, Vijay Kumar, London N3.
Gurr, Stephen John, Purley.

Hadjirousou, Ninos Augustinou, London N10.
Hailes, Robert Ernest, Harrow.
Hallam, David Stephen, Sheffield.
Haque, Abul Fazal Mohammed Emdadul, London SW11.
Harding, Ian William, Plymouth.
Harding, Michael John, Sheffield.
Harel, Jean Marc, Mauritius.
Harper, Barrie Keith, B.A., Chipstead.
Harris, Adrian James, Ilkley.
Hatcher, Andrew James, London W14.
Hawkins, Richard Fraser, Crewe.
Hazell, David Ian, Attenborough.
Head, Bryan Cyril, Ewell.
Hebblethwaite, Richard Neil, B.A., Sheffield.
Hedderwick, Christopher Sholto, Shipbourne.
Heggie, George Annan, London SW10.
Hennell, Peter, B.SC., Lincoln.
Heppell, Michael, London N1.
Heseltine, John, Bradford.
Hewitt, Derek Newbury, B.A., London SW3.
Higgins, Stewart Neville, Harrow.
Higgs, Malcolm Keith, Banbury.
Hill, Geoffrey Stanley, London N21.
Hill, Keith Brian, Harpenden.
Hill, Randolph Paul, Warley.
Hillman, Malcolm Trevor William, London W14.
Hills, Terence Roy, Enfield.
Hinde, Stephen Victor Cecil, Bristol.
Hla, Nay Myo, London W1.
Hocking, (Miss) Deirdre Elizabeth, Plymouth.
Hodson, Nicholas Martin, London SW9.
Hogg, Stephen Marcroft, Sevenoaks.
Holmes, Melvyn, Keighley.
Hopkinson, Christopher John, Ripley.
Hotson, Carl Anthony, Grimsby.
Howarth, Peter Ian, Exeter.
Howie, Ronald Drummond, London SW20.
Hudson, Roger Stuart, Sutton Coldfield.
Hughes, David Frank, Dudley.
Hughes, Edward William, Hockley.
Hughes, John James Mary, Harrow.
Hurst, Lawrence David, London NW4.
Husain, Arif, London W11.
Husband, Richard Radclyffe, Surbiton.
Hussain, Shabbir, Birmingham.
Hutchings, Keith, Andover.
Huzzey, Richard Douglas Humphrey, Cardiff.
Hyatt, Henry Alan, Manchester.

Ingram, Roger Andrew, B.SC., Ruislip.
Isenwater, Harvey Victor, Southport.
Izzard, Raymond John, Uckfield.

Jackson, David Anthony, Twickenham.
Jacobson, Philip Ronald, London N13.
Jarvis, Neville Charles, B.SC., Colchester.
Jeffreys, Robert Alan, Loughton.
Jenner, Andrew Keith, Hornchurch.
Jeyapalan, Prince Samuel Ratnam, London WC1.
Johnson, David Anthony, B.SC., Bradford.
Johnson, Jeremy Guyutt, B.A., London SW3.
Johnson, Keith Albert, Northolt.
Jones, Christopher Howard, Kettering.
Jones, David Anthony, Rhyl.
Jones, Derrick, Bexley.
Jones, Howard Maurice, B.SC., Loughton.
Jones, Philip Howard, Swansea.
Joseph, Ravi Kuriyan, Bagnolet.
Josephs, David Leslie Mayer, London E4.

Kabel, Michael, Stanmore.
Kamal, Tarif Burhan, Richmond.
Karamatullah, Vaiz, B.SC., London W4.
Karim, Abu Zahed Fazlul, London NW11.
Kennedy, John, B.SC., London W9 2NE.
Kent-Lemon, Nigel William, Hatfield.
Kenworthy, Robert, East Grinstead.
Kenyon, Michael, Stockport.
Kenyon, Michael John, Wigan.
Keymer, Gordon Charles, London WC2B 6XB.
Khan Muhammad, London N4.
Kingston, Anthony John, London SW16.
Kirkness, James Henry Magnusen, Tunbridge Wells.
Koon-Kam-King, Wilfrid, London SW4.
Koops, Eric Jan Leendert, B.A., London SW11.
Kwik, Stephen Siong Han, Epsom.

Lambert, David Ashley, B.A., Ewell.
Lampert, Richard, London W9.
Lancaster, James, Manchester.
Landy, Stephen Simon, London N3 2EA.
Latham, Brian Albert, Aldridge.
Laventure, Brian George, M.A., Ruislip.
Lazenby, Martin Anthony, Leicester.
Leach, John Leslie, Ilford.
Leaning, David John, London SW2.
Lee, Christopher Martyn, Leeds.
Lee, John Philip Macarthur, LL.B., Ware.
Lee, Terence, Newcastle upon Tyne.
Leigh, Christopher David, LL.B., Sidcup.
Lenham, David John, Wolverhampton.
Levey, Peter Lionel, London NW11 8BU.
Lewis, (Miss) Ann Mary, Wrexham.
Lewis, David Jeffrey, Ystalyfera.
Lewis, Robert Price, Newport, Mon.
Lim, Keng Jin, London NW6.
Lim, Teen Peng, London W4.
Lindsay, Grahame Duncan Gordon, B.SC., Herne Bay.
Lindsey, Keith Kirby, Colchester.
Linsell, Peter Charles, London WC1.
Little, Andrew Neill, Nairobi.
Lloyd, Gilbert Campbell, Cardiff.
Locks, John George Melbourne, Loughton.
Lodge, Trevor Drabes, Bradford.
Lovell, Richard Douglas Egerton, Winscombe.
Lui, Anthony Chi Shing, London W13 8JE.

McCarthy, Anthony John, Brussels.
McDanell, James Frederick, High Wycombe.
McGowan, Derek, Southwell.
McKean, John Roger, Godalming.
Mackintosh, (Miss) Alison Mary, Aldershot.
McMillan, John Frederick Douglas, Altrincham.
McNeil, David, Barnsley.
McNie, Nigel Ian Macgregor, Chelmsford.
McPhie, Alasdair Gilchrist, London SW1.
Maddock, Peter, Warrington.
Maley, Ian Desmond Montgomery, London W5.
Malone, Christopher Kevin, Portsmouth.
Mandair, Tarlok Singh, London N2 8AS.
Manglani, Chatru, Stockport.
Manners, Arthur, Studley.
Marshall, Ronald Edward, B.SC., Bebington.
Marshall, Terence Ashley, Todmorden.
Masani, Michael Patrick, Caterham.
Mason, Colin John Stewart, Hayes.
Mason, Nicholas Erskine Home, London SW15.
Mason, Paul Trevor, Aylesbury.
Matthews, Robert Michael, Sheffield.
Maxwell, William John, Godalming.
May, Bertram Michael, Carshalton.
Mayers, John Alfred Dugard, Solihull.
Mehra, Anand Mohan, London NW6.
Midwinter, Howard Guy, Sale.
Millward, John, Chesterfield.
Mist, John William James, Southampton.
Mitter, Biswadev, Sheffield.
Moffat, Richard Ellis Kinross, Nassau.
Mojola, Akinlolu Olujimi, London E15 4JW.
Molyneux, Robert Allan, Ormskirk.
Mond, David Emanuel Merton, Manchester.
Monkhouse, Ian Robert, Rotherham.
Moore, Anthony Russell, Nottingham.
Moore, Geoffrey, Nottingham.
Moore, John Francis, Dagenham.
Morgan, Nicholas David, London SW6.
Morrell, Owen Clive, Ilkley.
Morris, Anthony Charles, Nottingham.
Morris, Nigel John Grant, London W11.
Morris, Raymond Charles, Ilford.
Morton, Neville Hugh, Aylesbury.
Moscrop, Gerald Ian, Enfield.
Moss, Anthony Edward, B.A., Leeds.
Munday, Roger Derek, Luton.
Murphy, Frederick, Corby.
Myers, David John, Stourbridge.
Myers, Roger, London NW8.

Najmi, Sultan Ali, London SW19.
Namey, John Lancelot, Carshalton Beeches.
Nasr, Kamal Shukri, London W14.
Naylor, Alan Keith, Nottingham.
Nealon, Michael, B.SC., Bristol.
Neil, Timothy William Rix, Jarrow.
Newbery, Michael Rafe Selwyn, London SW15.
Newhouse, Robin Arthur, Leeds.
Newman, Alan, North Cheam.
Newman, Colin Maurice, London N3.
Ng, Pyak Yeow, London W11.
Nicholson, George William, Welwyn Garden City.
Nickols, Colin Arthur, Tiverton.
Noble, Richard Victor Leslie, Ware.
Nock, Brian Peter, Dursley.
Nodding, John, Birmingham.
North, Michael Curwen, London SW7.
Nott, Clive Gilbert, Stevenage.
Nunns, Edmund Roger William, Brentwood.
Nurulhuq, Abul Kalem Mohammed, London E16 4QY.

O'Brien, Alan John, London W8.
Ohly, Christopher John, Hove.
O'Keefe, Timothy Eugene, Weston-super-Mare.
Oldfield, Roger Howard, Sanderstead.
Olsberg, Jonathan David, Wembley.
Oram, James Stephen, LL.B., Birmingham.
Ovens, Edward Montgomery, Ramsgate.
Overall, Michael John, London SW16.
Owen, Michael, Cranleigh.
Owen, Roger Edwardes, Ilford.
Owers, David John, Shenfield.

Pacey, Allan Charles, Hull.
Packham, John Michael, Birmingham.
Palmer, Philip Terence, Stafford.
Parker, Martin Harold, Wolverhampton.
Parkinson, Richard Penrose, Waltham Abbey.
Parks, John, Harrow.
Parrish, Michael John, Hampton.
Parsons, Richard Keith, Sunbury-on-Thames.
Paschalides, Paschalis Xenophontos, London WC1.
Pasha, Harold Charles, London NW6.
Pate, Christopher Russell, Bromsgrove.
Patel, Arunkumar Vithalbhai, London SW17.
Patel, Harshadrai Keshavlal, London N12.
Patteson, Anthony Ian, Northwood.
Paul, Stanley, Ilford.
Pedelty, Mervyn Kay, Felixstowe.
Penfold, Roger James, Chichester.
Periton, Noel Macdonald, Richmond.
Perryman, Brian Leslie, Tunbridge Wells.
Pettett, Christopher Douglas, Stockport.
Philis, Panayiotis Nicolaou, London NW6.
Pierce, Brian John, London W6.
Pipe, Alan Geoffrey, Kidderminster.
Piper, Norman Geoffrey, Dudley.
Pitcher, Allan James, Barrow-in-Furness.
Platt, Daniel Lloyd, London N14.
Plinston, John Anthony, Wallington.
Pollard, (Miss) Carol Elizabeth, Harrow.
Poole, William Grant, London N21.
Popat, Kiritkumar Dhirajlal, London WC1.
Porbunderwalla, Anverali Mohamedali, London SW9.
Potter, Brian Nigel, Wilmslow.
Powell, David James, Broxbourne.
Pratt, Michael Stephen, Woodford Green.
Premchand, Sushil Kishore, B.A., London SW19.
Prescott, John Michael, St Helens.
Preston, George Ernest, Ewell.
Prestwich, John Anthony Russell, Bolton.
Price, Graham Dennis, Syston.
Price, William Austin, B.A., London SE21.
Priest, Kenneth Peter, Chadderton.
Puttock, Melvyn Reginald, Chislehurst.

Qureshi, Shaikh Ahmed Hussain, London NW5.

Radford, Ian Lamond, Maghull.
Raffan, Richard Keith, B.A., London EC2.
Raine, Michael Leslie Donaldson, Stockport.
Ramage, Peter, London SW16.
Rank, David, B.SC., London N3.
Reavell, Fraser Moore, Basingstoke.
Reay, Alan, Newcastle upon Tyne.
Reed, Robert Edward, Solihull.
Reeves, Colin Boyd Meredith, Coventry.
Rehmani, Nazim Alidina, Bexley.
Rhodes, Geoffrey, London W4 1EN.
Richards, Anthony William, Swanley.
Richards, Russell Martin Perren, Braintree.
Richardson, Eric Keith, B.SC., London EC2.
Riddle, Gordon Henry, Jarrow.
Riggal, Michael, Edgware.
Riley, Michael Bernard, Derby.
Roberts, Charles Anthony, Birmingham.
Roberts, (Mrs) Jennifer, Burnley.
Roberts, John Garmon, Caterham.
Robinson, David Graham, London W1.
Robinson, Kenneth David, Bradford.
Robinson, Paul Geoffrey, Ringwood.
Robson, David Allen, Liverpool
Rodda, James, B.A., Nottingham.
Rollin, Charles Timothy Hardey, London W5.
Rounsefell, Terence Martin, Crediton.
Roxburgh, Gerald Ralph, Rowlands Gill.
Rowley, David Arthur, Wolverhampton.
Rudd, Nigel Arnold, Norwich.
Russell, Barry Keith, Polegate.

Sabine, Peter Graham, Croydon.
Sadler, David John, Nottingham.
Samuel, Stephen, Stanmore.
Sandercock, Ian Leslie, Bromley.
Sandhoo, Mohammad Saleem, London SW7.
Saul, Meyer, London N15.
Saunders, Richard David Kyle, Llanelli.
Sayers, John William Cornelious, B.A., Romford.
Scodie, Michael, London E8.
Scott, John Armour, B.A., London EC2.
Scott, Nicholas Elmore, Leigh-on-Sea.
Screaton, Brian, Atherstone.
Seager, Peter Norman, Ipswich.
Searle, Robert George, Ashtead.
Seely, David Hugh, Norwich.
Sexton, Richard Keith, Radlett.
Shah, Ajitkumar Premchand Jiveraj, London NW4 2PU.
Shah, Ramesh Hirji Rajpal, London N8.
Shakoor, Javed, London E17.
Shannon, John Richard, B.A., London W2.
Sheibani, Bijan, London W1.
Shimmin, Colin John, Douglas.
Shine, Charles William, Nassau.
Shipley, Robert Elliott, Durham.
Shute, Ian Alexander, Bromley.
Siddiqui, Iqbal Ahmad, Birmingham.
Singer, Nigel David, Manchester.
Skelding, Neville Richard, Solihull.
Slann, Anthony, Newcastle, Staffs.
Smith, Anthony Brian, Wolverhampton.
Smith, (Miss) Barbara Joan, Isleworth.
Smith, Mark Funge, Purley.
Smith, Michael Alan Kingsley, B.A., Radlett.
Smith, Michael John Dickens, Solihull.
Smith, Nigel Leslie, London NW6.
Smith, Nigel Roderick, Newcastle, Staffs.
Smith, Robin Anthony Cowin, Douglas.

Smith, Ronald Gordon, Southport.
Smith, Samuel Dale, Cheadle, Hulme.
Smith-Cox, Peter, Clevedon.
Sooke, Thomas Peter, M.A., New York.
Southam, Joseph Russell, Harrow.
Spear, Paul Edward, Redditch.
Speller, Leonard Frank, Sutton.
Spencer, (Miss) Valerie, Wembley.
Spittle, Martin Henry Peter, St Albans.
Srivastava, Vijay Krishna, London SE3.
Stanlake, Howard John, St Austell.
Starr, Stephen Goddard, Edgware.
Stas, Peter Nicholas, London E4.
Stearn, John Graham, Cambridge.
Steel, John Harry, Billericay.
Steel, Nicholas John, Ewell.
Stephens, Marvin Charles, Kidderminster.
Stevenson, John Duncan, Nottingham.
Straughan, Charles Frank, Eastbourne.
Stubbs, David Ronald. LL.B., London W13 9NJ.
Sturman, Richard Leslie, Leamington Spa.
Sugden, Robert Ian, Keighley.

Tait, Grant Petrie, Ferring.
Taparia, Subhash Chandra, London SW5.
Tattersall, Colin, Burnley.
Taylor, Anthony John, Bury.
Taylor, Brian, Huddersfield.
Taylor, Brian, Hull.
Taylor, Peter John, Chesterfield.
Taylor, Stephen Richard Kent, M.A., Richmond.
Tempest, David Barry, Bradford.
Thei, John Anthony, London NW4 1HD.
Thomas, Andrew Crawford, Maesteg.
Thomas, Hywell Meredith Winston, Carmarthen.
Thompson, Peter Richard, Lincoln.
Thompson, Philip Geoffrey, Camberley.
Thompson, Raymond Harry, Coventry. (Resident Abroad.)
Thubron, Christopher Robert Stanley, Sunderland.
Timms, Michael Richard, Birmingham.
Titmuss, John Austin, Luton.
Tomblin, Brian Henry, Buckhurst Hill.
Toulmin, John, Berwick-upon-Tweed.
Travers, Anthony Howard, Chester.
Truelove, Charles Richard, Doncaster.
Turk, Arthur Cyril, Crawley.
Tuqan, Usama Jamaal, London W14.
Tyler, Denis, Bristol.
Tyson, Kenneth Frank, Bolton.

Ud-Din, Waheed, Birmingham.
Umpleby, Alan John, Bradford.

Van Pelt, Christopher Gerard Stephen, London WC1.
Vieira Ribeiro, John Alexander, London NW11 9SJ.
Volyk, Arie, Bolton.

Wade, Nigel Clement, Guildford.
Waite, William Andrew, B.COM., Halifax.
Waller, John Mark, Birmingham.
Wallis, Michael Leon John, B.A., Bengeo.
Walsh, Patrick Seymour, B.A., London W2.
Walters, Bryan, London NW1.
Walton, Tom, Halifax.
Wanley, William Geoffrey, Coventry.
Ward, Clive Richard, B.A., Bromley.
Ward, Robert Eric, Carshalton.
Warfield, John Edward Andrew, Harpenden. (Resident Abroad.)
Warren, David Pierce, Berkhamstead.
Warren, Martyn Jeffrey Gomer, Cardiff.
Watkins, Alan James, Bridgend.
Watson, David Frederick, Nelson.
Watson, Geoffrey Keith, London N6.
Watts, Grahame John, Midhurst.
Watts, Leslie Charles, B.SC., Crayford.
¶ Watts, Paul Robert, Leigh-on-Sea.
Webb, Robert Charles Mansell, B.A., Pinner.
Weight, Alastair Iain Reid, Bishop's Stortford.
Westmoreland, Terence, Leeds.
Wetherhill, Christopher, Leeds.
Whitcomb, Brian John, London N16 5UA.
White, Howard Russell, B.SC., Guildford.
Whitehouse, Gerald Michael, Petts Wood.
Whittick, Jonathan Andrew, Dorchester.
Widdowson, Philip John, Sheffield.
Widdowson, Robert John, B.A., Nottingham.
Wigan, Christopher, London W8.
Wigley, Michael James, Sutton Coldfield.
Wilkes, Bernard Laurence, Sevenoaks.
Willcocks, Vernon Eric, Exeter.
Williams, David Michael, B.A., London NW1.
Williams, Geoffrey James, London SW7.
Williams, Huw, Tonyrefail.
Wimborne, (Mrs) Angela Ruth, London N14.
Windle, David Meredith, Harrow.
Wise-Fone, John Paul, London NW11.
Wood, David Gerald, London NW9.
Wood, David Raymond, Middlesbrough.
Wood, Keith David, Chadwell Heath.
Woodbridge, Robert James, B.A., London EC2.
Wong, (Miss) Francisca Yoke Sin, Singapore.
Wrixon, Bernard, Loughton.

Yam, Robert Mow Lam, Penang.
Yeung, Foon Hoi, B.A., Liverpool.
York, David Michael, Nottingham.

Zaman, Mohamed Nasir-Uz, Harrow.
Zammit Tabona, Joseph, Malta.
Zissman, Derek, Birmingham.

Fellowship

The Council granted applications from 13 associates to become fellows under Clause 6 of the supplemental Royal Charter.

Members Commencing to Practise

The Council received notice that the following members had commenced to practise:

Bates, Martin Ronald, A.C.A., *a*1965; Geo. H. Chapman & Co, 22 Cheriton Gardens, Folkestone, Kent.
Bending, Archibald William Leonard, F.C.A., *aS*1951; 133 Windmill Drive, Brighton, Sussex BN1 5HH.
Boatman, Brian William Victor, F.C.A., *a*1960; Boatman Carter & Co, 65 St Mary Street, Chippenham, Wiltshire.
Bowden, Robert Stanley, A.C.A., *a*1970; 31 Linney Road, Bramhall, Cheshire.

Carter, Alan Hubert, A.C.A., *a*1965; Boatman Carter & Co, 5 Oxford Road, Calne, Wilts.
Chang, Terrance Gene, A.C.A., *a*1965; †John Hunt & Co, P.O. Box 1308, 14 St Vincent Street, Port of Spain, Trinidad, W.I.
Clements, John Francis, A.C.A., *a*1966; Ensor Son & Goult, 7 Elm Street, Ipswich, Suffolk IP1 1EZ.
Cotton, David John, A.C.A., *a*1969; *Michael Locke & Co, 89 Fore Street, Kingsbridge, S. Devon.

Dempsey, Benjamin Bernard, A.C.A., *a*1967; Bryce Hanmer & Co, 23 Albemarle Street, Piccadilly, London W1X 4DB.

Ellam, James Anthony, A.C.A., *a*1966; †Armitage & Norton, P.O. Box A10, Station Street Buildings, Huddersfield HD1 1LZ.

Floyd, Richard Eaglesfield, A.C.A., *a*1962; Floyd, Nash & Co, 456 Salisbury House, London Wall, London EC2.
Fullerton, Kevin, A.C.A., *a*1969; Pinner, Darlington & Co, Midland Bank Chambers, 28 Birmingham Street, Oldbury, Warley, Worcs.

Gee, Christopher John, A.C.A., *a*1962; Whinney Murray & Co, P.O. Box 955, Furgiani Building, Sciara Hafid, Tripoli, Libya.
Germain, Richard Michael Carrington, B.SC. (ECON.), A.C.A., *a*1961; *Deloitte & Co, Caixa Postal 1338–ZC–00, Rio de Janeiro, Brazil.
Gray, Brian Stuart, A.C.A., *a*1968; Gray, Harding & Co, Edgeworth House, 13 Edgeworth Crescent, Hendon, London NW4.
Griffiths, Emlyn, A.C.A., *a*1967; Tal Griffith & Son, 36 High Street, Pwllheli, Caernarvonshire.

Hoare, John Richard, B.SC., A.C.A., *a*1969; Radford, Sons & Co, 12 Portland Street, Southampton SO9 4LA.
Hollingworth, Anthony Peter, A.C.A., *a*1970; Pinder & Company, Norwich House, 58/62 High Street, Epsom, Surrey.

Johnson, Humphrey, A.C.A., *a*1968; Thornton, Harper & Relph, 29A Ribblesdale Place, Preston PR1 3LD.

Keller, Kenneth Calman, A.C.A., *a*1970; K. C. Keller & Co, Astor Lodge, Allum Lane, Elstree, Herts.
Kelsey, Brian, F.C.A., *a*1959; Holmbury, Queens Avenue, Maidstone, Kent.
King, Andrew, A.C.A., *a*1966; Tiptaft, Smith & King, Waveney House, Adwick Road, Mexborough, Yorkshire.

Legge, Richard Hildebrand, F.C.A., *a*1960; †Josolyne Layton-Bennett & Co, 23 Blomfield Street, London EC2M 7AT.

Malhotra, Manendra Kumar, A.C.A., *a*1968; Malhotra & Co, 11 High Street, Slough, Bucks.
Manjra, Mohamed Yacoob, A.C.A., *a*1964; Vallance Lodge & Co, 746 High Road, Tottenham, London N17 0AN.
Matthewman, Colin, A.C.A., *a*1969; Callow Matthewman & Co, 20 Athol Street, Douglas, Isle of Man.
McLaughlin, Anthony Colin, F.C.A., *a*1954; *H. T. Perkins & Co, The Albany, South Esplanade, St Peter Port, Guernsey, C.I.
Mookerji, Bimanbihari, A.C.A., *a*1970; Simon Spencer & Co, 28–29 Temple Chambers, Temple Avenue, London EC4Y 0HP.

Nicholls, John Thomas, F.C.A., *a*1960; Newton Armstrong & Co, 7 Well Court, Queen Street, London EC4.

Peachey, Roger John, A.C.A., *a*1970; Ashmole, Edwards & Goskar, 19A Bridge Street, Haverfordwest, Pembs.
Potter, Keith Sydney, A.C.A., *a*1962; †Wheawill & Sudworth, 10 Cork Street, London W1X 2NR.

Reeves, Richard, F.C.A., *a*1939; Irvine Reeves & Co, One Joanna House, Central Road, Worcester Park, Surrey.
Riches, Keith Ian, A.C.A., *a*1970; Pinder & Company, Baltic Exchange Chambers, 24/28 St Mary Axe, London EC3.
Ridge, Peter, A.C.A., *a*1966; Neville Russell & Co, 11 Poultry, London EC2R 8EN.
Roberts, Norman Stuart, B.SC.(ECON.), A.C.A., *a*1970; N. S. Roberts & Co, 7 Basil House, Henriques Street, London E1 1NG.

Scott, Graham John, A.C.A., *a*1966; 43 St Andrews Close, Moreton-on-Lugg, Hereford.
Seydoux, Henry Giorgio Piero Martin, B.A., A.C.A., *a*1961; *Arthur Young & Company, 4 Rue de Teheran, Paris 8, France.
Sheehan, Keith Laurence, A.C.A., *a*1968; 31 Victoria Avenue, Hillingdon, Middlesex.
Skelchy, Anthony Joseph, A.C.A., *a*1961; Andrew Leung & Co, 10th Floor, Lee Yan Lian Building, Jalan Mountbatten, Kuala Lumpur, Selangor, Malaysia.
Smith, James Alexander George, A.C.A., *a*1969; Daly Campbell Heron Smith, 11–15 McGregor Square, Kingston 5, Jamaica, W.I.
Stringer, John de Carteret, F.C.A., *a*1955; †Reads & Co, Hirzel Court, St Peter Port, Guernsey, C.I.

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a indicates the year of admission to the Institute.

aS indicates the year of admission to The Society of Incorporated Accountants.

¶ means 'Member in Practice'.

Firms not marked † or * are composed wholly of chartered accountant members of the Institute.

† against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

* against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

Sugden, John Robert, A.C.A., a1965; †Armitage & Norton, P.O. Box A10, Station Street Buildings, Huddersfield HD1 1LZ.

Turner, Raymond Thomas, F.C.A., a1960; Neville Russell & Co, 11 Poultry, London EC2R 8EN.

Vines, Godfrey Edward, F.C.A., aS1956; Cooper Brothers & Co, Commercial Arcade, St Peter Port, Guernsey, C.I.

Wilson, Rajakumaranan, B.SC.(ECON.), A.C.A., a1966; *Ford, Rhodes, Thornton & Co, P.O. Box 186, Colombo, Ceylon.

Wilson, Simon George Reginald, A.C.A., a1968; Moors & Co, Silkhouse Court, Tithebarn Street, Liverpool L2 2LQ.

Re-admission to Membership

It was reported to the Council that the following re-admission, made at the Council meeting on March 3rd, 1971, subject to payment of the amount required, had become effective:

Mr Richard Miles Honeybone, F.C.A., Beechcroft, Camp Road, Gerrards Cross, Bucks.

Resignations

The Council accepted the resignations from membership of the Institute of:

Baird, Hugh Aiton Aitken, F.C.A., a1935; P.O. Box 174, Queen Street, Hastings, New Zealand.

Dawkes, Arthur Henry, F.C.A., a1932; 12 Manor Way, Petts Wood, Orpington, Kent.

Naylor, Robert Owen, F.C.A., aS1926; Westmorland Travel Agency, Lloyds Bank Chambers, Finkle Street, Kendal. (Retired.)

Wardle, Harold, O.B.E., F.S.A.A., aS1938; 'Arminal', Coril Head, Braunton, Devon.

Woolley, Peter Jeffs, M.A., F.C.A., a1960; 2660 Queens Avenue, West Vancouver, British Columbia, Canada.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Batty, Lennox, F.C.A., Headingley, Leeds.
Birkinshaw, Harold Ernest, F.C.A., Burley in Wharfedale, Ilkley, Yorks.
Broad, Harold Percy, F.C.A., Hayle, Cornwall.
Browning, Alfred Gordon, F.C.A., Rotherham, Yorks.
Burrell, Owain Maredydd, F.C.A., North Walsham, Norfolk.
Corbin, Frederick Eli, F.C.A., London.
Corsie, John, F.C.A., Bramhope, Leeds.
Craddock, Kenneth George, F.C.A., Shepton Mallet, Somerset.
Dyson, William Johnston, F.C.A., London.
Edmondson, Arthur, F.C.A., Morecambe & Heysham, Lancs.
Ewart, John, F.C.A., Sidmouth, Devon.
Faulks, (Major) James, F.C.A., Reigate Heath, Surrey.
Foster, Frank Mortimer, F.C.A., Bedford.
Garratt, Charles Eric, M.C., T.D., F.C.A., Solihull, Warwickshire.
Hardy, Reginald Herbert, F.C.A., Sevenoaks, Kent.
Hargreaves, Richard Thomas, F.C.A., London.
Haydon, William Geoffrey, F.C.A., Plymouth, Devon.
Hill, Frederick George, F.C.A., Hartlepool, Co. Durham.
Holman, Harold, F.C.A., Sheffield.
McLauchlin, Andrew, F.C.A., Hemel Hempstead, Herts.
McMahon, Kenneth William, A.C.A., London.
Mapp, Kris Austin, F.C.A., Ontario, Canada.
Miller, Charles Frederick, F.C.A., Hull, Yorks.
Moore, William James Sago, M.C., F.S.A.A., Lancaster, Lancs.
Nash, Frederick, F.C.A., Kettering, Northants.
Pearse, Robert Bernard, M.B.E., F.S.A.A., Transvaal, South Africa.
Pudney, Eric William, F.C.A., Dover, Kent.
Rayner, William Evans, F.C.A., Monte Carlo.
Reice, Percy Vere, F.C.A., Bath, Somerset.
Richardson, (Miss) Hilda Mary, F.C.A., Allestree, Derby.
Roberts, John Bertram, F.C.A., Kingston-on-Thames, Surrey.
Sykes, Joseph, F.C.A., Stalybridge, Cheshire.
Thomason, John (sen.), F.C.A., Lymm, Cheshire.
Verling, Rupert Henry Lovday, F.C.A., Telford, Salop.
Walmsley, Grimshaw Pickup, F.C.A., Nuneaton, Warwickshire.
Wilton, Bernard, F.C.A., Bexhill-on-Sea, Sussex

FINDINGS AND DECISIONS OF THE DISCIPLINARY COMMITTEE

Findings and Decisions of the Disciplinary Committee of the Council of the Institute at hearings held on 19th January 1971

1. A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council:

That Richard Harry Latham Lutwyche, then a clerk under articles, has been guilty of a criminal offence which according to the criminal law in force as at 23rd September 1965 would then have constituted a felony or misdemeanour contrary to clause 22 (*a*) of the Supplemental Royal Charter

In that he on 11th November 1970 was convicted of the theft of five gallons of petrol.

Finding

The Committee found that the formal complaint against Richard Harry Latham Lutwyche, formerly a clerk under articles, had been proved.

Decision

The Committee ordered that Richard Harry Latham Lutwyche, formerly a clerk under articles, of Hersham Farm House, Long Cross, Chertsey, Surrey, be declared unfit to become a member of the Institute.

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2. A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council:

That Colin Nigel Pearce, then a clerk under articles, has been guilty of an act or default which might render him unfit to become a member of the Institute contrary to clause 22 (*a*) of the Supplemental Royal Charter

In that he on 9th October 1970 stole 40,000 Green Shield Stamps.

Finding

The Committee found that the formal complaint against Colin Nigel Pearce, formerly a clerk under articles, had been proved.

Decision

The Committee ordered that Colin Nigel Pearce, formerly a clerk under articles, of 78 Baird Avenue, Basingstoke, Hampshire, be declared unfit to become a member of the Institute.

3. A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council:

That Janette Poh Jin Yeap who was at the relevant time a clerk under articles has been guilty of acts or defaults which might render her unfit to become a member of the Institute contrary to clause 22 (*a*) of the Supplemental Royal Charter

(*a*) In that she on the 24th July 1970 stole a wallet and its contents to the value of £6

(*b*) And in that she on the 28th September 1970 obtained the sum of £17 0*s* 0*d* from a branch of Barclays Bank Limited by virtue of a forged instrument purporting to be a Barclaycard knowing the same to have been forged

(*c*) And in that she on the 28th September 1970 obtained the sum of £17 0*s* 0*d* from a second branch of Barclays Bank Limited by virtue of a forged instrument purporting to be a Barclaycard knowing the same to have been forged.

Finding

The Committee found that the formal complaint against Miss Janette Poh Jin Yeap, formerly a clerk under

articles, had been proved under all headings.

Decision

The Committee ordered that Miss Janette Poh Jin Yeap, formerly a clerk under articles, of 928 Nell Gwynne House, Sloane Avenue, London SW3, be declared unfit to become a member of the Institute.

Findings and Decisions of the Disciplinary Committee of the Council of the Institute at hearings held on 16th February 1971

1. A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council:

That Geoffrey Kenneth Grindrod a member of The Institute of Chartered Accountants in England and Wales has been guilty of acts or defaults discreditable to a member of the Institute within the meaning of clause 21 (3) of the Supplemental Royal Charter

In that he having been retained by a firm of solicitors to certify accounts under the Solicitors' Accounts Rules, on receipt on or about 18th February 1968 from The Law Society of notification that The Law Society had received unqualified certificates upon the accounts of four of the five partners of the said firm for the year ending 30th June 1967 and well knowing that he had not signed any certificates in respect of their accounts for that year, failed to bring that fact to the attention of The Law Society as his duty required him to do.

Finding

The Committee found that the formal complaint against Geoffrey Kenneth Grindrod, F.C.A., had been proved.

Decision

The Committee ordered that Geoffrey Kenneth Grindrod, F.C.A., of 8 General Street, Blackpool FY1 1RW, be reprimanded.

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2. A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council:

That Gordon Robson a member of The Institute of Chartered Accountants in England and Wales has been guilty of acts or defaults discreditable to a member of the Institute within the meaning of clause 21 (3) of the Supplemental Royal Charter

(*a*) In that he, without due cause, failed within a reasonable time or at all to provide a firm of chartered accountants with information requested by them on the 6th July 1970 and required in connection with the accounts of a firm formerly clients of his but then clients of the said firm of chartered accountants

(*b*) And in that he, without due cause, failed within a reasonable time or at all to reply to a letter addressed to him by the Institute on the 28th October 1970.

Finding

The Committee found that the formal complaint against Gordon Robson, F.C.A., had been proved under both headings.

Decision

The Committee ordered that Gordon Robson, F.C.A., of 16 Findon Crescent, Sheffield S6 4WL, be reprimanded.

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3. A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council:

That Christopher Anthony Piggott, formerly a clerk under articles, has been guilty of criminal offences which according to the criminal law in force as at 23rd September 1965 would then have constituted felonies or misdemeanours contrary to clause 22 (*a*) of the Supplemental Royal Charter

In that he on the 3rd November 1970 was convicted of six charges of theft and one charge of falsifying accounts.

Finding

The Committee found that the formal complaint against Christopher Anthony Piggott, formerly a clerk under articles, had been proved.

Decision

The Committee ordered that Christopher Anthony Piggott, formerly a clerk under articles, of 2 Aston Close, Pangbourne, Reading, be declared unfit to become a member of the Institute.

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4. A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council:

That William Peter Keng Seng Lim, formerly an articled clerk, has been guilty of acts or defaults which might render him unfit to become a member of the Institute contrary to clause 22 (*a*) of the Supplemental Royal Charter

In that he on the 23rd November 1970 when a candidate for the Advanced Accounting I paper of Part I of the Institute's Final examination and when he knew, or ought to have known, that it was contrary to the Instructions for Candidates, had in his possession during the examination notes relevant to the paper he was then sitting

And in that he on the 23rd November 1970 at the conclusion of an examination paper set in Part I of the Institute's Final examination attempted, when he knew, or ought to have known, that it was contrary to the Instructions for Candidates, to remove from the examination room a number of blank sheets of the Institute's examination paper.

Finding

The Committee found that the formal complaint against William Peter Keng Seng Lim, formerly a clerk under articles, had been proved under both headings.

Decision

The Committee ordered that William Peter Keng Seng Lim, formerly a clerk under articles, of Linwood, 38 Albion Hill, Loughton, Essex, be reprimanded.

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REVALUATION OF ASSETS

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Minimizing Credit Risks

Credit Managers' London Conference

PROFESSIONAL people are in for a difficult time if they wish bankers to grant them overdrafts, Mr N. R. Doling, M.B.E., of Barclays Bank, told an audience attending the Institute of Credit Management's annual conference in London last week. He did not mention accountants specifically but he certainly referred to the slow inward flow of fees to solicitors and architects. As it cannot be denied that professional accountants suffer from carrying an increasing burden of work in progress and debtors, the necessity to pay salaries and other overheads regularly must result in diminishing liquidity. They would thus, presumably, be looked at askance by Mr Doling if they required temporary financial assistance from his bank.

Not only professional practitioners were viewed unfavourably, as in Mr Doling's experience customers never tell 'the whole truth and nothing but the truth', whether they were 'reverend gentlemen or chairmen of large companies'.

Weak security

Salary earners with small banking accounts were often of the opinion that, because they owned the house in which they lived, this was excellent security for a loan. Mr Doling pointed out that in fact this was very weak security because foreclosure on default of repayment would mean throwing the occupants in the street and the 'Big Four' head offices disliked enforcing such a remedy. Property dealing, however, was an excellent avenue for short-term lending as deals were completed comparatively quickly with a fluid credit-debit-credit operation, and this was good banking practice.

Mr Doling was very optimistic about the future of UK banking, as although customers could 'shop around' their money would have to go through the eight clearing banks, directly or indirectly. Even if a prospective borrower was refused an advance by a clearing bank but was successful in getting a loan from a finance house, the money advanced and the repayment of it just had to go through one or more of the clearing banks.

An extraordinary year

The conference was presided over by Mr K. R. Cork, F.C.A., F.I.C.M., who was delighted that despite the rail 'go slow' and the earlier problems of the postal strike, there was the best ever attendance at any Institute annual conference. This year and the past year, said Mr Cork, had been very difficult for credit controllers because of the extraordinary situation of there being a depression and inflation at the same time. Truly the 'work of an administrative genius'.

The Registrar of Companies, Mr R. W. Westley, gave an extremely interesting description of the work of Companies House. He invited comments from the audience, because it was only in this way that he could take steps to remedy any defects in the system. He asked for it to be borne in mind that the one millionth company was registered recently and there had been an ever-increasing number of searches made each day since the 1967 Companies Act; in fact a record number of 6,600 were made in one day two weeks ago.

Regrettably, most searches were made between the hours of 11 a.m. and 3 p.m. each day, even though Companies House was open from 10 a.m. until 4 p.m. A total of 1½ million searches were made during the year 1970 and he requested that the whole of the opening hours be utilized rather than just those in the middle of the day. With the introduction of microfilming and microfiche, waiting time for photo-copies of documents should be cut drastically and every move was being made to ensure that files were kept up to date; unfortunately, this depended upon company directors who were rather wont to blame their accountants for not submitting annual returns and other statutory documents. It was interesting to note that the experiment of microfiche readers in Companies House had not proved very satisfactory as so many people used the facilities out of sheer curiosity, and not for practical purposes.

Mr Westley was questioned as to striking companies' names from the register but he emphasized that every attempt was made to be certain that before a company was struck off under section 353 there were no assets and no liabilities and that it was not trading. On a more sombre note, prosecutions for not filing statutory documents amounted to over 200 last year and there could well be a considerable number of prosecutions this year. To

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avoid this unpalatable state of affairs Mr Westley entreated company directors, secretaries and accountants to keep his staff aquainted with the true situation, and explain any delays in presenting documents for filing.

It should be remembered, said Mr Westley, that he was also responsible for the registration of business names and bearing in mind that the Business Names Act of 1916 was introduced to provide for the registration of aliens, he questioned whether the present situation was worth while. It had been mooted that in the meantime there should be revolving files of registered names at Companies House as there were for the identification of limited companies.

Another talk dealing with companies was by Mr D. A. Lishman, of the Credit Insurance Association, on 'Company liquidations in the UK', who described the connection between company failures and credit management, emphasizing that credit insurance and credit management were inextricably mixed with the 'end of the sorry chapter' – liquidations. He then gave some interesting information on the practical experience of the credit insurance market.

The Trade Indemnity Company, for example, maintained a series of statistics on bad debtors and business failures referring to irrecoverable debts in which company policy-holders had become involved. Some of the figures Mr Lishman quoted included those of the total business failures notified to the underwriters, which in 1970 were no less than 3,700 – an increase of nearly 7 per cent over the total of the previous year, and even that was considered a record at the time.

Perils of overtrading

As to the predominant trades amongst the failures, these were not unexpectedly the building and construction trades, followed by engineering companies, and by way of explanation Mr Lishman observed that the border line between solvency and insolvency was perhaps harder to see in those industries than in any other. One could be forgiven, he said, for thinking that a possible yardstick of a successful contracting or building company would be the volume of contracts and business in hand. In fact, this could be the very Achilles' heel of the contracting business, because in his view the smallest element of overtendering can result in contracts which for almost unforeseeable reasons could bring a company to its knees. Also, the building industry was, partly at least, a speculative one, and speculation could succeed or fail.

Mr Lishman made a reference to an area of danger for the trade creditor that was probably not generally realized, and that was trading within a group of companies, with a main or parent company, but with one or more subsidiaries. His point was that a very impressive name of a parent company did not necessarily imply safety in trading with its offspring. There were now many multi-national companies operating throughout the world, with no particular or special duty towards any particular country. The support of the parent could not be assumed, and its expressed guarantee was more often than not refused.

Letters

National Insurance Anomaly

SIR, – I would like to draw your attention to legislation proposed by the Department of Health and Social Security, which attacks the right of self-employed qualified or experienced professional men (including, of course, accountants) to remain self-employed, by proposing that if they are introduced to non-permanent work by a third party through whom their remuneration is also arranged, Class 1 SET and NI contributions must be paid in respect of them by a third party. Irrespective of who makes this payment, that it is made at all will have serious consequences, *per se*, on the self-employed man's professional and financial status.

This legislation also extends the operation of SET, which the Government is committed to repeal. There may be a case for doing this with regard to the 'lump' in the construction industry or clerical office workers, but not when it affects responsible professional men of a traditionally self-employed type.

May I suggest that your readers should make strong representations to the Secretary of State for the Department of Health and Social Security (Sir Keith Joseph), to the National Insurance Advisory Committee and to their own Members of Parliament.

Yours faithfully,

London EC4. R. BROYD.

To Love and to be Wise...

SIR, – Mr Jack Clayton's articles on inflation (*The Accountant*, March 25th and April 1st) are both refreshing and frustrating, even though, to me, not always wholly understandable; his forebodings of doom and gloom are frightening and one wishes he could be given control of the national purse and the power to try his cures for 'the British disease'. There is the nagging fear that he *could* be wrong, of course, and that if he is, we would end up in a worse state (of absolute anarchy?) than now.

However, is there some way in which Mr Clayton's prescription of a complete price freeze and no pay increases without real productivity and growth could be tried soon? Perhaps there is an Institute Committee which supports his views and would urgently say so to the Chancellor? Would accountant MPs who agree, make suggestions on these lines in the House?

Yours faithfully,

HAGGAI.

Student Roundabout

AN ENCOURAGING YEAR

APATHY plagued the Exeter CASS until last year and few members showed interest in its activities and social functions. However, due to the efforts put in by the out-going chairman, Nigel Cowen, and by A. J. Bruce, the vice-chairman, together with the committee, there has, judging from the Society's annual report, been a very distinct improvement. Indeed, the year 1970 is almost a story of success after success.

An innovation in the lecture programme was the introduction of whole-day courses on a wide range of subjects. Attendances showed a rise of as much as 50 per cent. Particularly successful were the series of taxation seminars.

In what they aptly describe as an encouraging year, the chairman and vice-chairman point out that many principals in the area are now actively encouraging their articled clerks to take a greater part in the Society's affairs due, they feel, to the circulation to firms of a 'letter of apathy' last year. They make the plea that if the Society is to become more successful, members must keep in touch with their local committee member, thus providing a two-way flow of communication beneficial to all.

Membership of the Society at the end of last year numbered 94 – a reduction of one on the 1969 figure. With a membership so widely distributed, the Society is none the less effectively representing student interests. It is to be hoped that the new committee will ensure that the impetus is maintained.

Exeter's New Officers

Mr D. F. Green, F.C.A., was elected President of the Society at the recent annual meeting. Admitted to membership of the Institute in 1951, following articles with Turquand Youngs in Exeter, Mr Green then joined Price, Waterhouse in London where he stayed for a few years until taking up his present position as a director of Evans, Gadd Ltd, of Exeter.

A founder member of the Society, he is a former committee member and a previous President; he is also a former Chairman of the senior society in Exeter.

The new Chairman of the Society is Miss Mary C. Wilson – the first

Mr D. F. Green.

Miss M. C. Wilson.

lady chairman to be elected. She became a member of the Society's committee in March last year, and earlier this year was elected to the Working Party on Education, subsequently attending the recent ACASS national conference as an Exeter delegate.

Mary Wilson, who takes the Final Part I next month, is interested in art, music and antiques – and, of course, student affairs.

Other officers and committee for the ensuing year are:

Secretary: A. J. Brunt.
Treasurer: R. Winkles.
Committee: M. U. Afzal, Miss J. Clark, P. Cliff, Miss V. E. Davies, P. Thayer, C. Townson, M. Weedon, A.C.A., and I. Wilson.

BRADFORD BEAT SENIORS

IN a recent soccer match, Bradford CASS beat the ACAs overwhelmingly by nine goals to one. Reece opened the scoring before the ACAs equalized through a clever chip by Farley (J.), which caught the goalkeeper out of position. The students went into the lead again when Atkinson scored a well taken solo goal.

Apart from the ball being passed back to the goalkeeper and one good save by him, the students' keeper was virtually a spectator as his team took charge of mid-field. In the second half youth proved too much for the ACAs.

TEAMS: *Students:* Brearton, Sutcliffe, Crawford, Biggin (Capt.), Rooke, Reynolds, Brunfitt, Reece, Atkinson, Gibbons, Dewar.

ACAs: Burdin, Pettinger, Walmsley, Fleisher, Sunderland, Farley (R.) (Capt.), Farley (J.), Unwin, Pawson, Bower, Worger.

Letter to Roundabout

PROBLEMS OF THE SMALLER SOCIETIES

SIR, – The October extraordinary meeting of ACASS showed the subtle, militant tension that has developed within the organization. With the press coverage of that meeting and subsequent meetings (the education council and last month's conference), the NEC has set out to exploit this feeling by proposing radical changes in education, articleship, etc., at national level. It is therefore not surprising that it has attracted attention from correspondence organizations and from the public and private teaching sectors. Even the Institute has noticed the student 'militancy'. Apart from the conferences, the NEC expresses its policies at the annual dinners of student societies, but I should have thought it would have found more opportunities to outline its purpose and aims at general meetings of societies.

However, ACASS, with its newly found recognition, has directed its campaign at the larger societies and nowhere has it attempted to reach the smaller societies. There are quite a number of these small societies struggling with their various education programmes and I doubt whether the 'schools of account', or for that matter any radical changes in the present system, would make any successful allies for ACASS among them.

It is these societies that should be put on the map and this could be achieved by having closer relations with the neighbouring societies. It is here that the societies need guidance. The ACASS method under NEC should direct its priorities towards stronger regional relations by applying formulated tasks at this level, and not at national level.

Yours faithfully,
A. J. PATEL,

SECRETARY, LEICESTERSHIRE AND NORTHAMPTONSHIRE CHARTERED ACCOUNTANT STUDENTS' SOCIETY.

Leicester.

Notes and Notices

PROFESSIONAL NOTICES

ARTHUR ANDERSEN & Co, Chartered Accountants, of St Alphage House, 2 Fore Street, London EC2Y 5DD, Bank House, 9 Charlotte Street, Manchester M1 4EU, and Royal Exchange Assurance House, 314 St Vincent Street, Glasgow C3, announce that with effect from April 1st, 1971, Messrs JEREMY C. ROBERTS, A.C.A., JOHN A. W. MOIR, C.A., and C. RICHARD TERRAS, A.C.A., all of whom have been with the firm for a number of years, have been admitted as partners. Messrs ROBERTS and MOIR will be located in London and Mr TERRAS in Manchester.

BARTON, MAYHEW & Co, A. C. PALMER & Co and FOX & Co, W. H. YATES & Co, of Leicester, announce that they have amalgamated their practices with effect from April 7th, 1971. The combined practice will shortly be moving to new offices at Provincial House, New Walk, Leicester.

BENJAFIELD, HELLIWELL & Co, Chartered Accountants, announce that with effect from April 1st, 1971, they have taken into partnership Mr MICHAEL WEBB, A.C.A., who has been associated with the firm for some time.

W. H. CORK, GULLY & Co, of 19 Eastcheap, London EC3, announce that as from April 1st, 1971, Messrs ROGER WILLIAM CORK and JOHN MARTIN IREDALE have been made partners in this firm. Mr THOMAS GRUNDY who has been a partner for a number of years has become consultant to the firm.

GORDON, LEIGHTON & Co, Chartered Accountants, of 59 Queen Anne Street, London W1, and CONWAY BEVERLEY & Co, Chartered Accountants, of 54 Welbeck Street, London W1, announce that they amalgamated their practices on April 1st, 1971. The combined practice will be carried on in the style of GORDON, LEIGHTON & Co from 59 Queen Anne Street, London W1.

HAMILTON, PRINGLE, FARRANT & Co, of Johannesburg, announce that Mr S. G. CHILVERS retired from the partnership on February 28th, 1971, in order to devote himself to his personal and other business interests. The name and style of the firm remain unchanged.

MILLER, SMITH & Co, Chartered Accountants, of 24 Weymouth Street, London W1N 4EL, announce that their senior partner, Mr E. DOUGLAS MILLER, F.C.A., retired from the partnership on March 31st, 1971. Mr MILLER was one of the original founders of the firm and he will remain with the firm as a consultant.

PRICE WATERHOUSE & Co, and its associated firm BOLTON BULLIVANT & Co, announce that as from April 19th, 1971, their Leicester practice will be conducted from new premises stiuated at Southgate House, 61 Millstone Lane, Leicester LE1 5QA.

RIDLEY, MARRECO & Co, of 65 Southampton Row, London WC1, and MICHAEL R. A. JACKSON & Co, of 19A Alymer Parade, London N2, announce that as from April 12th, 1971, their practices have been merged and will be conducted under the name of RIDLEY, MARRECO, JACKSON & Co from the existing offices.

WHITAKER, REDFEARN, PAPPIN & Co, Accountants, practising in Newquay and St Columb, Cornwall, announce that Messrs W. J. JAMES, F.C.A., D. HELLIWELL, A.C.A., and M. J. NEWELL, A.A.C.C.A., have been admitted into partnership as from April 1st, 1971.

NEW FINANCE DIRECTOR FOR MERSEY DOCKS

Mr Hubert G. Wrigglesworth, F.C.A., formerly a managing consultant with Binder, Hamlyn & Fry, of Manchester, has been appointed finance director of the Mersey Docks and Harbour Board. His appointment is part of a general management reorganization announced by the Board in order 'to speed decision-making, identify specific responsibility areas, encourage devolution of authority and improve communications'.

FILMS OF SCOTLAND COMMITTEE

Mr J. H. Forbes Macpherson, C.A., a member of East Kilbride Development Corporation, has been appointed to the Films of Scotland Committee, which is responsible for stimulating the production and distribution of Scottish films in the national interest. Mr Macpherson, who is senior partner in Touche, Ross & Co, of Glasgow, is deputy chairman of the Glasgow Savings Bank, a director of Glasgow Chamber of Commerce and a governor of the Glasgow and West of Scotland College of Domestic Science.

APPOINTMENTS

Mr Harry H. Draycott, F.C.A., who joined Thos W. Ward last year as group financial controller, takes over responsibility for all group accountancy in succession to Mr Ernest Dodd, F.C.A., who has retired as group chief accountant of Thos W. Ward after 25 years' service. Mr David Wolstenholme, A.C.A., has become group accountant.

Mr Michael Checkland, B.A., A.C.W.A., at present chief accountant of BBC Central Finance Services, is to become chief accountant of BBC Television in September

Mr M. Checkland.

Mr G. D. Paris.

Mr Gerard D. Paris, F.C.A., has been appointed to the board of Tarmac Ltd as group financial director.

Mr Sydney Gold, F.C.A., has been appointed to the boards of Costain Property Investments and Costain Property Holdings.

Mr J. S. Lloyd, A.C.A., has become managing director of Hoskins & Sewell.

Mr A. S. Rosen, F.A.C.C.A., has become an executive director of Securities Agency.

Mr A. F. Rowe, M.A., F.A.C.C.A., formerly group budgetary controller of Bowater-Scott, has been appointed commercial director of F. Hills & Sons, a member of Bowaters Building Products Group.

INQUIRY INTO LIFE ASSURANCE SCHEMES

Mr J. T. Corbett, F.C.A., a partner in Peat, Marwick, Mitchell & Co, has been appointed by Mr John Davies, Secretary of State for Trade and Industry, as a member of the Departmental Committee on Property Bonds and Equity-linked Life Assurance.

The Committee, under the chairmanship of Sir Hilary Scott, a Past President of the Law Society, has the following terms of reference:

'To consider the working of the Insurance Companies Acts 1958–67, and of the Prevention of Fraud (Investments) Act 1958, in so far as the latter is relevant, in the light of life assurance schemes involving the issue of equity-linked policies, unit-linked policies, property bonds and similar schemes, and to advise on the adequacy of the protection offered by these Acts to policy-holders in these schemes.'

DOUBLE TAXATION RELIEF

Orders entitled The Non-Residents' Transitional Relief from Income Tax on Dividends (Extension of Period) Order 1971 (which came into operation on April 5th) and The Transitional Relief for Interest and Royalties paid to Non-Residents (Extension of Period) Order 1971 (which came into operation on April 1st) have been published as Statutory Instruments 1971, No. 562 and No. 563.

The Orders extend, in each case by a further period of one year, the operation of sections 31 and 32, Finance Act 1966.

IN PARLIAMENT

Accepting Houses Association: Accounts

Dr GILBERT asked the Secretary of State for Trade and Industry whether he will now require members of the Accepting Houses Association to publish full accounts.

Sir J. EDEN: No, Sir. But I am keeping under review the position of these banks as shown by the full accounts which are supplied to the Department through the Bank of England.

Dr GILBERT: Is it not a continuing scandal that these private merchant banks, in this day and age, can accept money from the public on deposit and not have to reveal their true accounts? At least we have got around to requiring the joint stock banks to do so. Why should these entrenched citadels of privilege in the City not have to publish accounts?

Sir J. EDEN: There is a balance of advantages and disadvantages here. That is why we shall keep a close watch on the matter.

Hansard, April 5th, 1971. Oral answers, col. 28.

SCOTTISH MANAGEMENT GAME

A team from Graham, Smart & Annan, Chartered Accountants, of Edinburgh, have won through to the final of the Scottish Management Game due to take place in Paisley on April 24th. They are one of six teams to reach the final out of an original entry of 160 teams.

Having dealt successfully with a failing company in an unstable market, the six teams will now tackle the company's problems in terms of marketing, production, finance and utilization of manpower and machines.

The prizes for the winning team will be a one-week visit to the United States, with the opportunity to observe American business in action; the Scottish Management Game Trophy, presented by *The Scotsman*, and £300 'spending money'.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Technical Advisory Committee

The 171st meeting of the Technical Advisory Committee was held on Thursday, April 1st, in the Council Chamber at Chartered Accountants' Hall, Moorgate Place, London EC2. Present were:

Mr D. Napper (in the chair). Messrs G. Bar, M. T. R. Brookman, R. P. Brown, B. H. Buckley, D. C. Burling, P. J. Cavanna, M. A. Charlton, I. F. H. Davison, N. J. Edwards, N. Cassleton Elliott, A. C. Essex, C. R. P. Goodwin, J. H. Hewitt, Halmer Hudson, A. P. Hughes, H. B. Huntington-Whiteley, D. J. Ironside, K. Mashford, R. D. Pearce, J. M. Pitts, E. E. Ray, H. G. Sergeant, K. A. Sherwood, N. Smith, T. P. Thomas, G. Thompson, B. W. Waters, R. F. Watkins, E. Watts, and J. A. P. Whinney with Mr G. A. Slator, Secretary to the Committee. Messrs S. P. Wilkins and A. J. Hardcastle attended by invitation.

Matters considered

Consideration was given to a draft proposed statement of standard accounting practice, 'Profit and Loss Account and the Treatment of Extraordinary and Prior Year Adjustments'; a proposed statement of standard accounting practice, 'Earnings Per Share', and a draft statement 'The Personal Interests of Directors and Officers in the Transactions of Companies'.

Future meetings

It was noted that meetings of the committee had been provisionally arranged for Thursdays, May 27th, July 8th, and October 14th, 1971, at 2.15 p.m.

SHEFFIELD CATHEDRAL SERVICE FOR PROFESSIONAL INSTITUTES

Sir Maurice Henry Parsons, K.C.M.G., Chairman of the Bank of London and South America, and formerly Deputy Governor of the Bank of England, will be the lay preacher at the annual service for members of professional institutes and societies to be held in Sheffield Cathedral on Sunday, April 25th, at 6.30 p.m. Experience has shown the Sheffield and District Society of Chartered Accountants that the evening service is easily adapted to suit special occasions, and the committee hopes that every member will make every effort to be present.

'PERIMETRIC'

Solution to the crossword 'Perimetric' compiled by Kenneth Trickett, F.C.A., which appeared in last week's issue.

The letters on the edges of the diagram may be arranged to form DECIMALISATION OF CURRENCY.

ECONOMIC CONDITIONS OVERSEAS

Four further booklets in the series of annual economic surveys of development and prospects in member countries of the Organization for Economic Co-operation and Development have recently been issued covering Norway, Spain, Switzerland and Iceland. Copies of the booklets are obtainable from HMSO, price 27½p each.

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Making Democracy Work

AMONGST the recriminations which followed the collapse of the integration scheme last year, the Council of The Institute of Chartered Accountants in England and Wales was alleged to be patently out of touch with the vast majority of its members. Some support for this view seems to be implied in the first report of the Council's special committee on future policies, which – as indicated in a statement reproduced on another page – recommends that Council members should in future be elected by a postal ballot of members in district constituencies.

In theory, Council members are already elected by the Institute's membership, but the practicalities of the situation are a little different. One or two bold individuals in past years have already demonstrated the difficulties, to an otherwise eligible candidate who is not nominated by a district society, of making a sufficient impact upon an electorate of up to 50,000 members. It is also something of a rarity – if indeed it has ever occurred – for members of the Council to retire (other than as a formal prelude to re-election) at an annual general meeting. Certainly the great majority of such retirements are announced at intermediate dates, so that at the next annual meeting the membership is confronted with a *fait accompli* in the form of an already co-opted candidate. These factors have made it difficult for the Council to rebut conclusively the image of itself as a self-perpetuating oligarchy.

The Council has now appointed two working parties, of which the first is charged with considering how the proposals for local elections should be implemented and with a detailed review of Council and committee procedures, and the second with carrying out a review of the Institute's district society organization.

The Institute has in the past been suspected of a weakness for 'playing committees', and members may view with mixed feelings this establishment of two further bodies to consider matters which could well be brought within the special committee's existing terms of reference – to the extent, indeed, that they are not already within secretarial competence. Evidently the special committee, whose report is not being made public, has submitted other proposals of a more radical nature than the Council feels able to accept without further inquiry.

Announcing the establishment of the special committee in our issue of October 15th last, we likened it to a new XV taking the field. There has since been some brisk movement, with hopefully not too much passing, and the team has claimed its first try. The prospect of a conversion will be awaited with interest.

FINANCE BILL

Taxing the Lump

THE new Finance Bill carries out the Chancellor's threat to introduce legislation designed to prevent evasion of income tax by individuals in the construction industry. They avoid becoming employees and consequently keep out of the machinery of pay-as-you-earn.

The draftsmen have made somewhat heavy weather of the new provisions. They occupy the whole of Chapter 2 of Part II of the Bill and comprise clauses 19 to 21 and Schedule 4. Nor is that all: there are two separate provisions, each giving the Board of Inland Revenue power to make extensive regulations by statutory instrument, one of which incorporates, by reference, the provisions relating to pay-as-you-earn. Another provision gives the Treasury power to alter Schedule 4 which contains the definition of 'construction operations', to which the new provisions are confined.

The kernel of the new provisions is clause 19 (4) under which a 'contractor' who makes a payment to which clause 19 applies is bound to deduct 30 per cent (i.e., roughly speaking the basic rate of income tax) of:

> 'so much of the payment as is not shown to represent the direct cost to any other person of materials used in carrying out construction operations to which the contract under which the payment is made relates'.

The contractor must pay over this deduction to the Inland Revenue. It is to be treated for income tax purposes as not diminishing the payment to the sub-contractor but as being income tax paid in respect of the payment by the recipient of the net sum.

Clause 19 will not apply to a payment unless the following requirements are satisfied:

(1) The payment is made under a 'contract' (word not defined).
(2) The contract is not a 'contract of employment' (equally undefined).
(3) The contract relates to 'construction operations' (defined by clause 21 (6) and Schedule 4).
(4) One party to the contract is a 'sub-contractor' (defined in clause 19 (2)).
(5) Another party to the contract ('the contractor') is either:
  (i) a sub-contractor under another such contract relating to the construction operations; or
  (ii) a person to whom paragraph (*b*) of clause 19 (1) applies (defined in clause 19 (3)).
(6) The payment is made by the contractor to either:
  (i) the sub-contractor himself; or
  (ii) a person nominated by the sub-contractor.
(7) The person to whom the payment is made is neither:
  (i) a company; nor
  (ii) excepted by virtue of clause 20 (which provides for the certification of persons who would otherwise be caught as sub-contractors).

Clause 19 (2) pins the label of 'sub-contractor' upon any party to a contract relating to construction operations if:

(*a*) he is under a duty to the contractor (as defined):
  (i) to carry out the operations; or
  (ii) to furnish his own labour, or the labour of others, in the carrying out of the operations; or
(*b*) he is answerable to the contractor for the carrying out of the construction operations by other persons whether under:
  (i) a contract; or
  (ii) other arrangements made or to be made by him.

The words 'made or to be made by him' apparently are confined to 'other arrangement' and do not extend to 'contract'.

Enough has been said already to show that persons making payments in connection with construction operations are going to have a good deal to worry about, as to whether they have to deduct 30 per cent and pay it to the Inland Revenue or not.

What is a 'contractor'? The definition is to be found by studying paragraph (*b*) of clause 19 (1) in conjunction with clause 19 (3). Paragraph (*b*) refers to another party to the contract (i.e., other than the sub-contractor as defined in clause 19 (2)) who:

> 'either is a sub-contractor under another such contract relating to the construction operations or is a person to whom this paragraph applies' (*sic*).

On a strict reading of those words, a 'sub-contractor under another such contract' is not a person to whom paragraph (*b*) applies. Clause 19 (3) says in terms that paragraph (*b*) of sub-clause (1) applies to:

(*a*) Any person carrying on a business which includes the erection of buildings.
(*b*) Any local authority (defined by clause 21 (2)).
(*c*) Any development corporation or new town commission (both defined by clause 21 (3)).
(*d*) The Commission for the New Towns.
(*e*) (i) a housing association;
  (ii) a housing trust;
  (iii) a housing society (all three defined in clause 21 (3));
  (iv) the Scottish Special Housing Association;
  (v) the Northern Ireland Housing Trust;
  (vi) the Northern Ireland Housing Executive.

A person carrying on a business is not within (*a*) above by reason only that in the course of the business he

erects buildings for the use or occupation of himself or his employees.

As indicated above, it is a necessary condition of the contractor's liability that the contract under which he makes the payment must relate to 'construction operations'. The meaning of this phrase may vary because the Treasury can change it by statutory instrument from time to time. In particular they may add new categories if the Treasury are satisfied that they are a normal activity of the 'construction industry' (undefined) and that their inclusion is necessary for achieving the object of clause 19 (clause 21 (7)).

Subject to that, clause 21 (6) adopts a purchase tax legislation device by setting out, in Part 1 of Schedule 4, operations which are included in the definition; and then setting out in Part 2 of Schedule 4 operations which, although included in the general description in Part 1 are specifically excluded by Part 2. Part 1 has six divisions which may be summarized as follows:

(1) Construction, alteration, repair, extension, demolition or dismantling of buildings and structures (permanent or not).
(2) Construction etc., of any works forming, or to form, part of the land; particular instances being given.
(3) Installation of systems of heating, lighting, air conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection.
(4) Internal cleaning in the course of construction, alteration, extension, repair, or restoration.
(5) Operations forming an integral part of, or preparatory to, or completing, the operations above.
(6) Painting or decorating buildings or structures.

The exclusions of particular matters on the above general descriptions, contained in Part 2 of Schedule 4, are divided into five categories as follows:

(1) Drilling for or extracting oil or natural gas.
(2) Extraction of minerals.
(3) Manufacture of building or engineering components or equipment (including delivery to the site).
(4) Manufacture of components for heating etc., and delivery to site.
(5) Professional work by architects, surveyors, consultants.

References to construction operations are to be taken (except where the context otherwise requires) as including references to the work of individuals participating in the carrying out of such operations (clause 21 (6) (*a*)). They do not include operations outside the United Kingdom and its territorial waters.

A person who is otherwise caught as a sub-contractor may escape the rigours of clause 19 (i.e., deduction of 30 per cent of sums paid to him) by seeing that a certificate under clause 20 is in force in respect either of himself or of the firm in which he is a partner. However, as regards the firm, he escapes only in relation to contracts under which the firm itself is a sub-contractor as defined in clause 19 (2). To obtain a certificate, the applicant has to satisfy the Inland Revenue on the following points:

(1) He is carrying on a business which consists of or includes the carrying out of 'construction operations';
(2) He has a permanent place of business in the United Kingdom; and
(3) Either:
  (*a*) in respect of any period ending within the three years preceding his application:
    (i) he has been required to make a return of his income or requested to supply to the Inspector accounts of (or information about) his business; *and*
    (ii) in respect of all such periods he has complied with any obligation imposed on him under the Taxes Act and with any such request; or
  (*b*) In the absence of any such obligation or request there is reason to expect that he will comply with any such obligation or request in respect of other periods.

If the Inland Revenue is so satisfied, clause 20 (2) imposes upon them a duty to issue a certificate of exception. Nor can the Inland Revenue merely fold their arms and say they are not satisfied. This is because of clause 20 (5) which gives to an applicant, aggrieved by refusal, the right to appeal within 30 days either to the General Commissioners or to the Special Commissioners. The Commissioners can then review the Inland Revenue's decision.

The Inland Revenue can cancel a certificate if it appears to them that any of the following facts apply:

(1) The certificate was issued on information which was 'false' (i.e., presumably not only incorrect, but deliberately or recklessly incorrect).
(2) There has been a change of circumstances by reason of which they would refuse an application if then made.
(3) The holder of the certificate has permitted it to be misused.

Having cancelled a certificate, the Inland Revenue can by notice in writing require it to be re-delivered to them within the time specified in the notice (clause 20 (4)). An aggrieved person whose certificate has been cancelled has a similar right of appeal. A fine of £500 can be imposed on summary conviction of any person who for the purpose of obtaining a certificate:

(*a*) makes any statement, or furnishes any document,

which he knows to be false in a material particular; or

(b) recklessly makes any statement, or furnishes any document, which is false in a material particular.

Clause 20 (7) empowers the Inland Revenue to make detailed regulations concerning certificates, including the period for which certificates can be issued.

The Revenue are also empowered to make regulations in respect of the collection and recovery (by assessment or otherwise) of sums which have been deducted from payments. These regulations can include any matters with respect to which regulations can be made under section 204 (PAYE) of the Taxes Act (clause 19 (5)). Thus the contractor making the deductions is in much the same position as an employer deducting PAYE tax.

There is this difference: an employer has little difficulty in deciding whether someone to whom he is making payments is an employee or not. Where the recipient of the payment is not an employee, then the question whether or not the 30 per cent deduction has to be made will be one of extreme difficulty. If the contractor fails to deduct tax, he will nevertheless be accountable for it to the Revenue. On the other hand, the sub-contractor may adopt an attitude under which either the contractor pays in full or he does not receive the services for which he is paying.

CURRENT AFFAIRS

The Association's Annual Meeting

THE Council of The Association of Certified and Corporate Accountants has successfully resisted, at least for the present, the attempt by Mr R. Mitchell and others to make Council membership directly proportionate to the respective strengths of the Association's practising and non-practising membership (*The Accountant*, April 8th and 22nd). At Tuesday's annual meeting of the Association, Mr Mitchell's resolution was defeated by 72 votes to 31 on a show of hands, and by 2,245 to 444 on a proxy vote.

Members approved the Council's own resolution to drop the words 'and Corporate' from the official title of the Association. The designatory initials to be used by members in future will be FCCA and ACCA for fellows and associates respectively, and members will be encouraged to use the new forms as from the date on which the change of name is accepted by the Registrar of Companies.

It was also agreed to support the Council's proposal to petition for a Royal Charter of incorporation (*The Accountant*, April 8th). A spokesman for the Association later said that an early decision on the petition was not anticipated: the procedure might take between 18 months and two years, and it would be open to any other interested party to lodge an objection if they were so minded.

The possibility of such an objection certainly exists. At present, the title 'chartered accountant' is the prerogative, within the British Isles, of members of the English, Scottish and Irish Institutes and of the other chartered institutes in the Commonwealth or in South Africa. The only other accountancy body at present incorporated by Royal Charter is the IMTA, whose members use the designation 'chartered municipal treasurer'.

The outgoing President's address at the annual meeting is reproduced elsewhere in this issue.

New President

MR ROBERT P. CROUT, F.A.C.C.A., F.C.I.S., was elected President of The Association of Certified and Corporate Accountants at a meeting of the Council held on Tuesday, following the annual meeting. He has served as Vice-President for the past two years.

Mr Crout's early accountancy training with Cammell Laird & Co was interrupted by war service with the Royal Navy. However, in 1944 he was admitted to membership of The Chartered Institute of Secretaries and following demobilization in 1946 became, successively, assistant secretary and secretary of Meakers Ltd. In 1949 he was appointed secretary of the John Lewis Partnership and the following year was admitted to membership of the Association. He joined Schweppes in 1960 and is now property controller of Cadbury Schweppes and director and Secretary of Schweppes (Pension Funds) Ltd.

First elected to the Council of the Association in 1962, Mr Crout has served on most of the Association's standing committees, including the Executive Committee, Finance Committee, Technical and Research Committee, and Disciplinary Committee. He has also been a member of various special committees, including

more recently those on decimal currency and company law amendment.

The new Vice-President is Mr Alan W. Nelson, FACCA, FTII.

Monopolies Commission – Another Rebuff

THE 'restrictive practices' attributed to solicitors should not be abandoned without evidence that such a step would be in the public interest. This is the uncompromising reply of the Council of the Law Society to the Secretary of State for Trade and Industry, following its review of such practices in response to the Monopolies Commission report of last October (*The Accountant*, November 5th, 1970).

It is inevitably the conveyancing monopoly of solicitors which attracts the most comment from members of the public. The Law Society has pointed out in its reply that it is for Parliament and not for the profession to decide whether this monopoly should continue, and whether the unqualified should be barred from offering a conveyancing service.

It also draws attention to 'the financial disasters and personal heartbreak that could result if unqualified and inexperienced people who know little or nothing of the inevitable complexities of house purchase . . . were free to advertise their services and to represent themselves as capable of handling these matters of vital importance to the individual concerned'.

The Law Society agrees that professional services should be carried out in an efficient and businesslike manner, but regards as 'a dangerous generalization' the suggestion that professional services are indistinguishable from a commercial business.

Inspectors for Rolls-Royce

TWO inspectors have been appointed to investigate the affairs of Rolls-Royce Ltd, under section 165 (*a*) (i) of the Companies Act 1948, following a resolution passed at an extraordinary general meeting of the company last week. They are Mr Peter Godfrey, F.C.A., of Messrs Whinney, Murray & Co, and Mr R. A. McCrindle, Q.C.

The resolution calling for the appointment of inspectors was proposed by the company's board, with the support of some 13,850,000 proxy votes. Mr Whitney Straight, chairman of the company, said that the inspectors would be asked to submit at least an interim report as soon as possible; he hoped that their report would in due course be published.

In the course of the meeting, the receiver, Mr E. R. Nicholson, F.C.A., stated that he expected to repay the debenture-holders in full. A spokesman for the receiver subsequently confirmed that this was not regarded as the end of his responsibilities, and that he would continue to pay the closest attention to the interests of all the company's creditors.

For the unsecured creditors' committee, Mr K. D. Wickenden, F.C.A., agreed this week that they had enjoyed the fullest co-operation with the receiver, and that in the present circumstances they saw no advantage in moving for the appointment of a liquidator. In particular, the committee would not wish to prejudice the outcome of the RB-211 negotiations. The appointment of inspectors would not of itself either help or hinder the creditors' case.

A few creditors for what Mr Wickenden described as 'petty cash' amounts had obtained judgment against the company, and were thus in a position to present a petition for winding-up if they so chose; however, in view of the substantial opposition to such a course, he thought it unlikely that such a petition would be granted without at least a prolonged adjournment.

Section 165 (*a*) of the 1948 Act imposes a mandatory duty on the Department for Trade and Industry to appoint inspectors if so required by special resolution of the company, or by Court order. It is distinguished from section 165 (*b*), which gives the Department discretionary powers to appoint inspectors if the circumstances suggest fraud, misfeasance, misconduct or suppression of information.

The Benevolent Ten Per Cent

MEMBERSHIP of The Institute of Chartered Accountants in England and Wales at January 1st, 1971, was 49,705. Membership of the Chartered Accountants' Benevolent Association was 4,949

The ratio between these two figures has shown a slight improvement over the past year, and the income and expenditure account shows a surplus of £2,630 compared with the 1969 deficit of £1,553. It is nevertheless probable that by reason of inflation and of the increase in the number of cases assisted, the cost of relief will be substantially greater in 1971, and the committee of the Association has therefore appealed for greater support from members. It is also noted that, by reason of the state of the Institute's own finances, the grant from this source towards the accommodation and administrative expenses of the Association will not be available in 1971.

In addition to its support of the Housing and Community Association (*The Accountant*, January 22nd and April 23rd, 1970), the CABA also has nomination rights for a total of fifteen places in the homes of the Crossways Trust. These nominations are available for any member of the Institute, his wife or widow, who may be in need of care and attention which cannot be paid for at normal commercial rates, and one or more vacancies for the able-bodied were available at the date of the CABA report.

During 1970, a total of £43,577 was dispensed in relief to 192 beneficiaries. The CABA Committee acknowledges the assistance given by district societies and members of the Institute who have acted as referees in regard to applications for assistance.

Defending the Professions

IF the Industrial Relations Bill becomes law in its present form, it could seriously undermine the application of professional ethics in commerce and industry. A professional man could find himself a member of a trade union and forced to turn his back on his concept of service and ethical conduct.

Speaking at the diamond jubilee banquet of the Glasgow and West of Scotland branch of the Chartered Institute of Secretaries, the President of the Institute, Mr W. M. McKenzie, F.C.I.S., said: 'Involvement in the market place may sometimes mean that the chartered secretary is in a minority of one – or possibly two with his professional colleague, the accountant – in an organization which is largely unionized. Under the 'agency shop' principle set out in the Bill, he could be forced to join a trade union.

'Such a situation would place a professional man at a very great disadvantage, because his whole outlook has been coloured by his professional training and its underlying concept that the public interest must be closely protected.'

Mr McKenzie has been equally forthright on the subject of the Monopolies Commission report on the professions. In a letter to the Department of Trade and Industry, he said:

'My Institute has long felt that there is a strong case in the public interest for a statutory requirement that the secretary of a company, at least of a public quoted company, should be a trained and qualified man. At present no such provision exists.

'I feel that this Institute can say with confidence that no restrictive practices operate in this profession which are in any way contrary to the public interest as described in the report.'

THIS IS MY LIFE

Not Doing Their Thing

by An Industrious Accountant

'MET a chap at the club last week', said the managing director, 'who recommended these shares for a quick killing so I got their last annual report. Do you think they're a good buy?'

He tossed a glossy brochure across the desk and a 16-page booklet fell out. There were coloured pictures of gorgeous girls, keen-eyed scientists at desks, products, more girls. . . . 'Don't bother about the soft sell,' advised the MD, 'what about the share values?'

The main brochure ran to 30 pages, starting with the notice of meeting, directors' report, and the chairman's statement, and ending with an impressive list of subsidiary companies. The statement was fluent and intelligent, with an optimistic forecast of increased turnover based on full order books. 'I've used that guff myself,' said the MD. 'How would you evaluate the P and L figures?'

The profit before tax and interest came to over £20 million, but £6 million had been charged for depreciation. The voluminous notes appended were verbose with detailed figures, but they lacked the significant data. No percentages were shown, no original asset cost. The plant had been revalued 'having regard to age, usage, and price indices movements since date of purchase'. The MD raised his eyebrows when I indicated that these particular figures didn't mean a thing. 'You're an experienced accountant', he said coldly. 'You mean they're intentionally vague?'

I was frowning over a comment in the notes to the effect that certain assumptions (unspecified) had been made in calculating the profit element earned to date on long-term contracts. Besides, the assets included a sizeable sum for goodwill.

There was a plausible explanation for it in the notes, it was true, based on take-over values of recent acquisitions, but I like to see goodwill written off early. 'The auditors' report didn't query it,' the MD reproved me, 'so it surely can't be significant. Could you work out a value for the ordinary shares?'

I said with dignity that this would take some time, even on a net asset basis, and retired to a quiet room with a desk calculator. There were subsidiaries with calls payable and debts due, plus trade associates and minority interests, plus three sorts of preference shares as well as assorted mortgages and debentures. I tore up two sheets of scribbled tots and started again.

It was getting dark by the time I'd worked through the tax provisions and the investment grants, but my 'guestimate' didn't coincide with the day's Stock Exchange quote. There could be several reasons, of course. Maybe I was dumb or the investing public was dumber. Maybe further pieces of the jigsaw were necessary before any experienced accountant could extract any reasonably reliable estimate of value. 'Why don't the auditors work out a fair asset-based value per share?' asked the MD keenly. 'That way, they'd provide a check-point for the shareholders they represent; as it is, they just leave us in the dark.'

I told him why, but he said that outlook was obsolete.

Discretionary Trusts

II – Valuation and Reliefs

by P. W. BOWER, LL.B., D.P.A., A.C.I.I.

This second of two articles considers a further example of the application of two separate heads of charge, and discusses some valuation problems.

FOLLOWING the illustrations given in the first article, let us assume that on July 1st, 1963 (more than seven years ago, but after the 'longstop' date) a settlor established an *inter vivos* discretionary income trust.

Amongst the discretionary beneficiaries are W (a widow) and her three children, X, Y, and Z, all unrelated to the settlor. The terms of the trust are such that if W remarries she is disqualified from the class of beneficiaries and therefore ceases to be eligible to benefit. For the seven years from July 1st, 1963, until June 30th, 1970, all the income of this trust was paid to W but on July 1st, 1970, she remarried and since that date all the income from the trust has been distributed to one of her children, X.

On the supposition that the trustees continue to pay all the income to X, it is interesting to consider the consequences of both W and X dying in that order on, say, December 31st, 1973, this being exactly three and a half years after W's remarriage. In this case the income distribution pattern can be represented diagrammatically quite simply and, because no part of the settled property has ceased to be settled, the duty liabilities in respect of any beneficiary's death can be virtually read off from this simple diagram:

In this case the widow has died 'ex benefit' and we are therefore concerned (having established that she went out of benefit within the previous seven years) with the proportion of the income which she received from this fund in the seven years preceding the point in time that she ceased to be eligible to benefit. Clearly, the proportion passing under this head is 100 per cent; that is to say, the whole of the settled fund passes on the death of W and is chargeable to duty under paragraph (*bb*) of section 2 (1) (*b*) (iii).

Beneficiary X died 'in benefit' and one simply has to establish what proportion of the income that beneficiary has had in the last seven years or such shorter period as he has been eligible to benefit. From the diagram above and remembering the assumptions as to level income it will be seen that X has had half the income in the last seven years. Therefore, half the fund will be dutiable on his death under paragraph (*aa*) of section 2 (1) (*b*) (iii).

Thus, in respect of the two deaths, duty is prima facie payable on 150 per cent of the value of the settled fund, and on that basis it is not difficult to imagine circumstances in which duty could absorb the whole of the fund or even exceed the value of the whole fund.

Quick succession relief

Whilst there are provisions to prevent more than 100 per cent of a settled fund being chargeable to duty because payments out of income during a period exceed income arising during the period (see section 37 (3) (*d*) of the Finance Act 1969) there are no express provisions preventing the duty payable equalling or exceeding the total fund in circumstances like those postulated. The reason for this is probably that such provision is unnecessary because on multiple deaths the position would be mitigated by 'quick succession relief' and – where a beneficiary has ceased to be eligible for more than four years – by ordinary 'taper relief'.

In the example there is no 'taper relief' as the two deaths are taken to occur less than four years after the widow's remarriage, but there is quick succession relief. In order to explain the application of this relief it is necessary to assume estate values for both W and X, and, of course, to assume a value for estate duty purposes of the settled fund at the date of the death of W. Let us assume, therefore, that:

(1) The fund settled on discretionary trusts was worth £40,000 on the day of W's death.
(2) On that date W had a dutiable free estate of £83,333.
(3) On the date of his death X had a dutiable free estate of £28,333.

On these assumptions the duty payable by the trustees of the settlement would be as follows:

In respect of W's death

By aggregation of £40,000 (100 per cent of settled fund) with £83,333 (free estate) to make a total dutiable estate of £123,333. it is established that the estate rate for W's estate is 50 per cent exactly. The duty payable by the

The author of this article is a director of Noble Lowndes & Partners Ltd.

trustees of this imaginary discretionary trust is, therefore, 50 per cent of £40,000=£20,000.

X's death

By aggregating X's free estate of £28,333 with half the value of the discretionary trust (£20,000) the total dutiable estate is £48,333 to give an estate rate of 30 per cent exactly. On that basis duty is payable by the trustees at 30 per cent on £20,000=£6,000 but by application of maximum quick succession relief this amount is reduced by 75 per cent to £1,500.

It should perhaps be mentioned that quick succession relief was specially applied to circumstances like this by paragraph 7 (1) of part 2 of Schedule 17 to the Finance Act 1969, as subsequently amended by section 31 (4) of the Finance Act 1970.

The big question is – is the second calculation above correct? Should duty in respect of X's death after W be levied on the value of the settled fund at the date of his death (taken as £40,000) or should it be levied on the value of that fund after making allowance for the accrued liability for duty on W's immediately prior death? This latter approach appears equitable and reasonable and in relation to the particular figures chosen it leads to the result that only £592·50 would be payable in estate duty. It is easy to imagine a case in which the difference between these two results could be very significant.

The situation was foreseen by the legislature – to an extent – in that section 36 (5) (*d*) of the Finance Act 1969 expressly says that no part of the settled fund shall be liable for duty once it has been 'disposed of' for the purpose of paying any tax or duty for which the trustees are accountable. Common sense indicates that a duty liability incurred should be treated as duty paid for the purposes of this section but one learned author takes the stricter view (at least by implication) in that he expresses the hope that the Revenue will treat liability as payment.

The alternative view which this author prefers is that any duty liability accrued will be deductible as a debt on general principles without reference to the subsection cited above. In short, duty payable will have to be treated as duty paid in this type of circumstance. If this is not so then perhaps the onerous duties of discretionary trustees will have to extend to virtual immediate payment of duty on pain of being negligent if they do not do so!

Valuing the settled fund

In the first of these articles liability was distinguished from quantification, but the subject of valuation was sidestepped. 'Valuation' in this context is meant to refer to what to value and when to do so and the availability of any valuation reliefs rather than how to do so, which is a separate subject.

So far as the 'in benefit' charge under paragraph (*aa*) is concerned, valuation of the settled fund is always at date of death and the valuation must extend to capital acquired out of accumulated income, notwithstanding that such accumulations would be exempt from duty under a gift charge on the death of the settlor. Under this charge there is no taper relief (or 'abatement') because the gearing of the charge to the income distributed to the deceased beneficiary in the preceding seven years produces automatically an equitable 'straight line' run off of liability once distributions to him cease. Indeed tax planners have not been slow to appreciate their ability to achieve a much more accelerated 'run off' by increasing the income yield.

The valuation timing question is more complicated in relation to the 'ex benefit' charge under paragraph (*bb*). Where the beneficiary ceased to be entitled to benefit from all or part of the settled fund because the property left the fund (as did the advance of £10,000 to A in the previous article), then the fund to be regarded retrospectively as a notional separate settlement falls to be valued at the date on which it ceased to be subject to the settlement. In other words, the value crystallizes as soon as the property in question ceases to be settled.

Where, however, an 'ex benefit' charge arises from personal disqualification and the fund itself remains settled, valuation is at date of death. In this latter case, any trust assets acquired by the trustees after the disqualification of the beneficiary by investment of accumulated income or by transfer into the settlement would not be included in the valuation. Thus in the second example the charge in respect of the widow W's death was made on the value of the fund at her death on the basis that there had been no accretions to the fund since her remarriage.

Authority for all this can be found – with some perspicacity – in subsection 12 of section 38 of the Finance Act 1957, as amended by paragraph 22 of Part III of Schedule 17 to the Finance Act 1969. Because the 'ex benefit' charge crystallizes at least in quantification, if not in valuation, during the beneficiary's lifetime, it is logical and equitable that 'taper relief' should apply in the normal way. It should be noted, however, that this preserves full liability for four years with statutory reductions thereafter which is a far less advantageous position than that obtaining under the 'in benefit' charge. Hence, other things being equal, beneficiaries should never be made ineligible when they can merely be omitted from benefit.

Fifteen-year charge to CGT

Finally, mention should be made of one aspect of valuation unique to the charge on discretionary trusts which is now of historical interest only. It was applicable to all charges under 2 (1) (*b*) (iii) whether under paragraph (*aa*), (*bb*), or (*cc*).

Until the recent Budget, discretionary trusts were subject to CGT every 15 years and thus the value of settled property at an appropriate time could include an element of capital gain not immediately chargeable to CGT but which would have contributed to such a charge at the next 15th anniversary. For the benefit of trustees concerned with deaths before March 31st, 1971, the practical effect of the relevant statutory provisions (paragraph 13, Part II, Schedule 17 of the

Finance Act 1969, may be summarized quite briefly.

Capital gains accrued to the relevant valuation date were calculated and the amount of CGT payable on them, if the whole fund were realized, was established. The amount of tax was then treated as payable on the next 15th anniversary and discounted back to the valuation date at 5 per cent per annum. This discounted value of tax payable on net gains accrued was then allowed as a deduction from the settled fund in valuing it as a whole for estate duty purposes. There was no question – thank goodness – of attempting to assess to what extent, if any, the £5,000 death exemption would be available to the trustees. The whole calculation was notional and arbitrary but fairness was probably achieved at the price of considerable complexity. *(Concluded.)*

The Institute of Chartered Accountants in England and Wales

Special Committee on Development Policy

The Council of The Institute of Chartered Accountants in England and Wales established last October a special committee to examine the objectives of the Institute and the policies it should pursue in the present circumstances. ('A New XV Takes the Field', The Accountant, *October 15th, 1970.)*
The special committee has met on several occasions, and recently submitted its first report to the Council. As was foreshadowed in the President's statement earlier this month (The Accountant, *April 15th), its recommendations include a review of the present procedures for appointment to the Council and to local organizations. Two further working parties have been set up to inquire into particular aspects of the special committee's report.*
The full text of the Council statement is reproduced below.

THE Council has received from the Special Committee a report dealing mainly with the machinery for the management of the affairs of the Institute.

2. The report contained three main recommendations which were accepted in principle by the Council:

(*a*) That Council members should in future be elected by postal ballot of members in district constituencies:
- Candidates for election being nominated by members working or residing in the district.
- The Council having increased powers of co-option to ensure that under the revised system the main interests are represented.
- The provision for the appointed members of the former Society of Incorporated Accountants being retained until the present three such members retire.

(*b*) That there should be a review of the district society organization with a view to increasing membership participation in Institute activities and improving communications between the Council and the members.

(*c*) That there should be a review of the size, functions, and operating procedures of the Council and its Committees. This review should aim at reducing the workload of Council members so that the possibility of service on the Council is thereby opened to a wider section of the membership than at present. Consideration should be given in particular to the scope for greater delegation of authority and to even more use of co-opted members on committees.

3. The Council has accordingly established two working parties:

(*a*) the first to consider how the proposals for local elections should be implemented and to carry out the detailed review of the size, functions, and operating procedures of the Council and its Committees;

(*b*) the second to carry out the review of the district society organization.

4. In its report the Special Committee also:

(*a*) supported:
- (i) the proposal to raise the minimum educational standard on entry to two 'A' levels in 1971 and the principle of aiming at a predominantly graduate entry as soon as possible;
- (ii) the view that it would be premature to seek to establish a junior qualification within the Institute in view of the availability of other professional qualifications and of academic awards covering professionally relevant subjects.

(*b*) expressed the view, which was endorsed by the Council, that there should be no change in the present status of Incorporated Accountant members.

Current Law

Contract: Measure of Damages

WHERE goods are lawfully rejected by the buyer, and a new contract is negotiated by the parties for the sale and purchase of the same goods at a reduced price, the seller may plead the buyer's profit on the subsequent contract in mitigation of the damages arising from the original breach.

P agreed to buy from C a cargo of maize, c.i.f. Adriatic port, at $62·64 per ton. The ship reached Trieste on October 19th, 1965, when the cargo was found to have deteriorated and P refused to accept it. It was not disputed that P was entitled, under the terms of the particular contract, to reject the cargo.

On November 13th the parties agreed that P would take the cargo, free of all expenses up to that point, at $51·40 per ton. P also claimed damages for C's non-performance of the original contract, based on the difference between the contract price of $62·64 and the market price of sound goods in Trieste on October 19th, which would have been $64·50 or $65·00 per ton.

This claim was refused by the Court of Appeal (affirming Roskill, J), on the grounds that the rejection and subsequent purchase formed a continuous course of dealing between the same parties. P's purchase at the unnaturally depressed price of $51·40 had yielded them a profit substantially exceeding any damages arising from the events of October 19th, and to look only at C's original non-performance without regard to the subsequent events would be 'contrary alike to justice, common sense, and authority'. The result of the whole course of dealing was that, notwithstanding C's breach, P had made a profit and not a loss.

R. Pagnan Fratelli v. Corbisa Industrial Agropacuaria Limitada ([1971] 1 All ER 165).

Will and Codicil

WHERE an executor knows of the existence of a codicil to a will and there are no serious grounds to dispute the validity of the codicil, the mere fact that the sole beneficiary under the codicil has been cited to propound it and has failed to do so does not entitle the executor to probate of the will alone.

M made a will of the whole of his real and personal property to his wife, and appointed her his sole executrix. He subsequently executed, in the presence of two witnesses, a document described as a codicil to the will, purporting to give 50 per cent interest in his net estate to his secretary.

After M's death, his widow, as executrix of his estate, gave notice to the beneficiary under the codicil to propound it should she think it in her interest to do so. There was no appearance to this citation, and the executrix then sought probate of the will alone without the codicil.

In the Probate Division of the High Court, Mr Justice Cairns rejected the argument that, as the secretary had been given the opportunity to propound the codicil and had not done so, the executrix was entitled without further inquiry to probate of the will alone. An executor, unless he had renounced probate altogether, was under a duty to execute the wishes of the deceased. The Court was being invited to pass over a document which was apparently a valid testamentary disposition, and the proper course was for the executrix to apply for probate in solemn form, and to adduce such evidence that she might have that the codicil was not a valid document.

Re Muirhead, deceased ([1971] 1 All ER 609.)

Defunct Company: Appointment of Liquidator

UNDER section 352 of the Companies Act 1948, the liquidator of a company or 'any other person who appears to the Court to be interested' may apply to the Court, at any time within two years of the date of the company's dissolution for the company to be restored to the register.

A company passed an extraordinary resolution for voluntary winding up and appointed a liquidator. The person appointed then discovered that the company had been previously struck off by the Registrar of Companies for failure in making annual returns. To enable him to proceed with the liquidation, he applied under section 352 for a declaration that the previous removal from the register was void.

The Court (Mr Justice Megarry) held that the applicant could not proceed as a 'liquidator' under section 352: a liquidator for this purpose presumed one who had been validly appointed, and the company having already been dissolved could not appoint a liquidator. He was, however, in the opinion of the Court, a person 'interested' within section 352. He had the possibility of a claim against the company for *quantum meruit* for the work which he had done, and there was also the risk of a claim being made against him for intermeddling with the company's assets whilst not validly appointed. He could not fairly be regarded as having no proprietary or pecuniary interest in the company, and was accordingly entitled to an order that the company be restored to the register.

Re Wood & Martin (Bricklaying Contractors) Ltd, ([1971] 1 All ER 732).

Pecuniary Advantage

SECTION 16 of the Theft Act 1968 provides, in part, that a pecuniary advantage may be dishonestly obtained by deception if any debt for which a person is or may become liable is in whole or in part deferred.

L was in arrears with his rent, and gave the landlord a cheque which was dishonoured. He was convicted of an offence against the quoted provision of section 16. This conviction was quashed by the Court of Appeal.

To show that an offence under section 16 has been committed, the prosecution must prove (*a*) that the accused practised a deception with intent to induce the creditor to refrain from requiring payment on the due date, and (*b*) that the deception was effective. In the present case, there was no evidence that the deception caused the landlord to refrain from pressing for payment. The deception and intention had been established, but the prosecution had not proved that it had been effective in securing a deferment of payment.

R v. Lockyer (121 NLJ 319: *The Times*, April 7th, 1971).

Accounting for Currency Inflation

The Lessons of 1931

by H. O. H. COULSON, F.C.A.

The inflationary trends in the economy of Great Britain at the present time give rise to a number of questions about methods of accounting designed, so far as possible, to take account of inflation and of the decline in real resources which may at any time be taking place, masked by an apparent increase in paper values. Cases have been quoted of companies said to have endeavoured to maintain accounts in which fixed assets were depreciated upon a replacement cost basis, which would provide for one but not all of the effects of inflation, and it may be that, in a time of acute inflation, such adjustments merely of fixed assets will prove inadequate.

IN the very troubled days shortly after the conclusion of the First World War and when the Weimar Republic was running rapidly into a very severe (in fact, an entirely uncontrolled) inflation of its currency, these questions arose with very great force in concerns operating with and in the central European countries.

At that time, an apocryphal story was told of a German who lived near the frontier with Holland and dealt in hardware. He is said to have been in possession of a capital sum – let us say 10,000 marks – which he took across the frontier to purchase one ton of nails. He took his purchase back into his own country, realized it for 20,000 marks, and then travelled back into Holland, where he found that his 20,000 marks would now buy only half a ton of nails. He continued this process of buying all he could, selling it in his own country and going back with the proceeds to replenish his stock.

With every journey the realization value of the goods he had to sell increased, in terms of marks, and the quantity of goods he could buy with the increased realization fell. Ultimately, after a number of such journeys, he found that the extraordinarily large quantity of mark notes (which he now had to take with him in a wheelbarrow) would purchase him only one nail. At that stage he returned to his own country, borrowed a piece of rope and a hammer and hanged himself on the nail.

It is not known whether he (or, more probably, his legal personal representatives) were pursued by Revenue officials asking for a share of the large 'profit' which he had made upon his trading in nails. No doubt that would happen in the United Kingdom, should a similar situation arise here.

Currency bulls and bears

The German experience was a case of runaway inflation which had to end in a complete devaluation of the mark and the setting up of an entirely new currency. This, for practical purposes, wiped out all those fortunes which were represented by banking accounts, currency, fixed-interest securities, loans or money due.

Viewed from the outside it is, of course, only too easy to say that the victim of this sad state of affairs should never have allowed money to lie in a vulnerable currency. It is perhaps not so easily understood that if, at any given moment, an individual is entitled to receive more money than he has to pay out in a vulnerable currency, he is at risk. He is, in fact, a holder – a 'bull' – of that currency, whereas he would be wiser if he owed more than he was owed in it – a 'bear' of that currency. It makes little difference to the case if he is in fact living and has all his assets in that country, so long as his cash assets are less than his current liabilities. At a time of marked inflation it is a good thing to owe heavy overdrafts and loans and a bad thing to be owed too much money.

The gold standard

Another point which may be borne in mind is that, at the time of the German inflation, there were still currencies which were effectively tied to what was regarded as the last word in safety – gold. The holder of a vulnerable currency could (perhaps at some cost) transfer his funds into one of these safer currencies, and could very often borrow funds repayable in a vulnerable currency to buy less vulnerable currencies and make a profit when he came to cash in on his purchases and pay back his borrowings. At the present time, it is doubtful whether there are any currencies which are particularly safe and in which dealings would be possible. Even the dollar is not by any means immune from fluctuation due to inflation, and there are multifarious restrictions upon the exchange of one currency for another.

Problems of this kind did not arise with any acuteness until September 1931, when Great Britain abandoned the gold standard and the value of the £ sterling in terms of other currencies thus became a matter of considerable uncertainty. In 1931, therefore, records

based upon the methods used in Central Europe were adopted and used in the United Kingdom and what follows is an outline of the recording methods so used.

Questions arose and, indeed, were very relevant, as to the methods which had been used by people trading in commodities in Central Europe at the time of the German inflation to guard themselves against the heavy risks that surrounded them. Clearly, it was necessary for them so to organize their trading that they did not at any time become holders of, or entitled to receive sums in, vulnerable currencies in excess of the amounts they were due to pay out in those currencies.

For that reason it had been a not unusual practice to sell as much of the local – vulnerable – currency as possible day by day in exchange for less vulnerable currency. The quantity of commodities which the safe currency thus acquired would buy established the price in vulnerable currency at which the trader had to sell to obtain the vulnerable currency to deliver in satisfaction of his purchases of safe currency. In other words, the quantity of the commodity which could be sold was determined by the amount of safe currency which could be bought for vulnerable currency at the time.

The practice of matching a sale of commodities with a concurrent purchase of safe currency equivalent to the price in vulnerable currency is, of course, more normal but, in times of sharp fluctuation, the order of the transaction was reversed – a somewhat topsy-turvy affair.

Currencies and commodities

At the end of each working day it was necessary to compile a full statement showing how much was due by the trader and how much was due to him in various currencies, vulnerable and safe. In order not to become unintentionally involved in a very dangerous speculation in currencies, it was necessary for these currency accounts to be balanced every day so that the amounts owing to and by the trader in each currency were (as near as might be) equal to one another. Any vulnerable balances would be either exchanged into safe currencies or used immediately to purchase supplies of commodities.

Whilst, as has been noted above, the purchase of safe currencies is today less easy – or even impossible by reason of the many and various currency controls – there are, even now, fewer obstacles to the purchase of commodities and thus turning balances of currency into commodities or fixed assets which would be likely to hold their real value. In effect, traders would thus take steps to ensure that they did not become the holders of, or entitled to sums in, vulnerable currency in excess of the amount they had to pay out in that currency.

These foregoing precautions were, of course, designed to minimize the losses which might result from inflation but did not, of themselves, affect the ascertainment of profit or loss and the segregation of the effects of inflation from the results of normal trading. Indeed, the sale of goods upon what was effectively the basis of the cost of their replacement would lead to significantly increased 'paper' profits which were, in part at least, the result of 'sweating' of the capital of the business.

A procedure was followed almost precisely similar to that employed in the conversion of accounts from one currency to another; in fact, such a conversion procedure, using a stable currency as that into which the accounts were converted, was considered. In order, however, to avoid the possibly fortuitous fluctuations in a single exchange rate, an index figure was computed based upon a selection of stable currencies, and was expressed as a ratio of the value of paper £s to gold £s, and vice versa.

Conversion factors

The not unusual practice of converting all items at a rate related to the day upon which the balance sheet is drawn up was, however, inadequate to deal with rapidly and, in some cases, widely fluctuating exchange rates. It was necessary to convert assets, liabilities, expenses and credits at appropriate rates. Shareholders' funds on the day before the date of abandonment of the gold standard and any liabilities payable in gold currencies were maintained at full value. Fixed assets and stocks at that date were similarly converted. Subsequent additions to fixed assets, purchases of stock, expenses and receipts were converted at the rate of the day of acquisition, or payment as the case might be. Debtors and cash assets were converted at the rate on the date of the subsequent balance sheet.

In the outcome, differences on conversion would emerge representing either the deficit required to be reserved out of paper profits to reflect the inflation losses, or a surplus attributable to inflation and not to normal trading.

It is possible that, at the present time, some currencies could be used as the basis of conversion factors; but it might well be better, if it were possible, to base factors upon the purchasing power of the currency rather than upon any less vulnerable currency or currencies. Certainly when the gold currency method was used in 1931 it did not produce answers which were particularly informative because, among other things, the gold currency ratio did not reflect the immediate changes in purchasing power of the £. Whilst the £ promptly lost a good deal in value by relation to gold currencies, the level of prices in Great Britain did not rise proportionately to the decline in value of its currency, as in theory it should have done.

It has to be borne in mind that, at that stage, Great Britain was a very large importer of perishable produce from other countries, the producers of which could not afford to remain out of the market. Ultimately, having attempted to hold their stocks for a while in order to see prices rise to reflect inflation in Great Britain, they were compelled to sell, in some cases at

lower prices in paper £s than those at which they had previously been selling in gold £s. To that extent, therefore, the methods used in 1931 did not give the guidance required.

Paying tax on inflation

Whatever accounting methods may be used, in order truly to maintain the real value of a business it is necessary to retain sufficient profits to avoid the wasting of its capital by reason of inflation. This may well require selling prices to be increased to reflect the replacement cost of the goods being sold, resulting in larger paper profits which would be liable to taxation. In so far as the larger profit represented the difference between actual cost and replacement cost, the whole of it would be necessary to ensure that the real worth of the business was maintained, but taxation would make serious inroads upon this retention. In theory, at least, it would be necessary to raise selling prices to allow also for taxation but such an increase might very well have the effect of pricing the would-be seller out of the market and of reducing the volume of his sales.

It must, of course, remain the case that the seller of goods at prices which show him a profit over what they cost him but no profit over what it would cost him to replace them is not in fact making a profit but running his capital down. Even in the limited case of those who continue after an increase in taxation to sell goods at the pre-taxation-increase price, the goods cannot be replaced for the price on the basis of which they were sold. A paper profit might be shown, but the real profit might be less or even non-existent.

To sum up, the methods of dealing with both trading and accounting in a time of inflation must be directed to maintaining the real worth of the business and, so far as possible, to do so after allowance for taxation. So long as taxation is levied upon a 'profit' largely contributed to by inflation, the retention of enough profit from trading to finance the same volume of trading will prove difficult if not impossible. The reinvestment of retained profits in the business would not be inflationary, whilst taxation – especially at the level suffered in the United Kingdom – is gravely inflationary.

It was, I believe, one of the reproaches levelled against King Henry VIII that he debased the currency. Inflation is, of course, the symptom of debasement, but even Henry VIII did not, at one and the same time, debase the coinage and levy taxation upon the 'profit' resulting from the consequent inflation!

The Case for a Progressive Tax on Consumption

by R. A. RAYMAN, B.Com., A.C.A.

In recent years, successive governments have grappled with the problem of reconciling the conflicting requirements of a strong balance of payments, adequate social services, and stable economic growth. Production must be stimulated, yet at the same time consumption has to be restrained in order to free resources for export and investment.

Although the £17,078 million of taxation raised in 1969 represented over 40 per cent of the National Income, the structure of taxation in spite of its complexity does not appear to be compatible with the objectives of economic policy.

This situation remains unaltered by the 1971 Budget proposals.

INDIRECT taxes are levied on goods and services. They are therefore inflationary by their very nature. Direct taxes are levied on individuals and corporations mainly on the basis of annual income. They therefore penalize effort and enterprise and subsidize inefficiency and waste. Consequently the use of taxation as a weapon against inflation may be self-defeating.

Chancellors who wish to control domestic consumption without making matters worse by resorting to inflationary indirect taxes are forced back on taxes on income. But income is the reward for production. A tax on income is in effect a tax on production. Nor does it discriminate between income saved and income spent. There is therefore no guarantee that the impact will fall not on consumption but on savings.

Haphazard development of taxation

To some extent taxation is a prisoner of its historical development. Governments which have been forced to meet military or economic emergencies by introducing unpopular taxes have often become so

dependent on the revenue that they have been reluctant to dismantle the administrative apparatus long after the original crisis has passed. Income tax, for example, was introduced in 1798 as a temporary measure to finance the war against Napoleon. The complexity of the present tax structure is therefore largely the result of a series of historical accidents rather than the conscious application of a coherent set of fundamental principles.

In spite of the resulting multiplicity of different taxes based on a multiplicity of different principles (see Table), the basic philosophy does not appear to have changed very much since the days of Adam Smith. According to the first of his four famous maxims on taxation, the individuals of a great nation are the joint tenants of a great estate, and their contribution towards its expenses should be related to the benefits which they derive under its protection. The individual should be taxed in accordance with his debt to society.

Indirect taxes are regressive because they take no account of personal circumstances. Direct taxes do; and this provides the justification for their greater cost of administration and collection. Income, however, is a measure of what the individual contributes to society. It is consumption which is the measure of what he withdraws. When a man earns income as the reward for production, he imposes no burden on society. On the contrary, he adds to the goods and services available to the community.

Nicholas Kaldor and the late Irving Fisher, who are perhaps the best-known twentieth century advocates of a tax on consumption, adopted the principle that the tax should be based on the pleasure or enjoyment derived from consumption. They therefore defined taxable consumption as the value of real goods and services actually used up. Consequently they found it necessary to devise complicated schemes for dealing with the consumption of durable goods by the assessment of some kind of notional annual use on the lines of the old Schedule A tax on property. For this reason, more than any other, the tax was widely regarded as impractical.

If, however, taxable consumption is defined as the acquisition rather than the enjoyment of real goods and services, the problems of timing and valuation disappear. Consumption takes place at the date of acquisition and is equal to the cost of acquisition. Not only does this dispose of many of the practical

RECEIPTS FROM TAXATION IN 1969

	Total £m	*Personal* £m	*Corporate* £m
Direct taxes (levied on taxpayers)			
Taxes on income or gains:			
Income tax	4,779	4,779	
Surtax	240	240	
Corporation tax	1,317		1,317
Capital gains tax	259	199	60
Taxes on capital:			
Death duties	372	372	
	£6,967	£5,590	£1,377
Indirect taxes (levied on goods and services):	£m	£m	£m
Taxes on expenditure:			
Purchase tax	1,110		1,110
Taxes on labour:			
Selective employment tax	808		808
Social security contributions	2,243	1 102	1,141
	£4,161	£1,102	£3,059
Receipts in 1969 from taxes to be replaced under the proposed system	11,128	6,692	4,436
Other taxes (ostensibly charges for government services, protective duties, etc.)	£m		
Taxes on expenditure:			
Other customs and excise duties	3,642		
Stamp duties, licence fees, etc.	634		
Taxes on land and buildings:			
Local authority rates	1,674		
	5,950		
TOTAL RECEIPTS FROM TAXATION	£17,078		

(Source: Central Statistical Office, *National Income and Expenditure 1970*, HMSO, London 1970.)

problems, but it also is much closer to the realization of the central principle. It is, after all, by appropriating real goods and services from the common pool that the individual deprives the community of their use. What he chooses to do with them subsequently is his own private business. If a progressive tax on consumption is to be charged in accordance with the individual's debt to society, it should therefore be based not on the enjoyment of real goods and services but on their acquisition.[1]

Basis of assessment

As it would not at present be practicable to assess personal consumption expenditure directly and to collect the tax on a 'pay as you spend' basis, it would be necessary to resort to a method of indirect assessment of the type suggested by Fisher and Kaldor. Taxpayers would have to declare receipts from all sources. They would be entitled to claim exemption for whatever they had 'spent' on monetary claims. (Savings – whether deposited in banks or building societies, or invested in government securities, industrial shares or debentures, or policies of endowment or insurance, etc. – would, in other words, be exempt from tax.) The balance would be presumed to have been spent on real goods and services, and would therefore be treated as taxable consumption. The consumption tax could be levied on the balance of taxable consumption at suitably progressive rates and collected through the normal channels.

In typical cases, tax would still be collected on the present 'pay as you earn' basis, but the taxpayer could subsequently claim a rebate in respect of any savings. Evasion by failing to declare receipts could be discouraged by Kaldor's suggestion of using claims by payers for the exemption of non-taxable payments to provide evidence of the corresponding receipts in the hands of the recipients.

A progressive tax on consumption of this type is envisaged not as an addition to the present multiplicity of taxes, but as a replacement. Certain taxes, however (like the 'Other taxes' in the table) are levied ostensibly as charges for services provided by the government or as protective duties on 'undesirable' forms of expenditure. They are therefore subject to rather different criteria, which are beyond the scope of this paper. Nevertheless, they would have to be reconsidered in the light of the shift in the relative burden of taxation which would occur if all the other indirect taxes were replaced by the proposed tax on consumption.

Strict interpretation of the principle of taxing individuals in accordance with their debt to society would suggest the replacement of the remaining £11,128 million of taxation by a single tax on personal consumption. Corporations are intermediaries rather than final consumers. They would not, therefore, be liable to a tax on consumption. Nevertheless, the transfer of more than £4,000 million of taxation from the corporate to the personal sector is unlikely to be a practical proposition. Some compromise might be necessary by which corporations continued to pay roughly the same proportion as before.

Corporations, like persons, could pay tax on their expenditure on the acquisition of real goods and services. Expenditure on monetary claims and distributions of profit would therefore be excluded. Business firms would be charged according to their use of real resources (and inefficiency thereby penalized). Purchases from other firms would, however, have to be exempted. Suppliers would already have suffered tax on their own expenditure, and the 'cascade' effect of cumulative taxation, besides being inequitable, might provide an artificial incentive to vertical integration. That would leave expenditure on land and labour available for taxation.

Anti-avoidance provisions might be necessary, however, because profits, whether distributed or not, would escape tax, whereas wages and salaries would suffer. Those (e.g., self-employed, controlling directors, etc.), with discretion to withdraw remuneration either as profits or as salaries, could therefore be made subject to a payroll tax based not on their actual drawings but on a range of earnings in the industry or profession as agreed with the Inland Revenue. On the basis of the 1969 figures, a proportional payroll tax of the order of 20 per cent would be sufficient to raise the whole of the corporate sector's share of the taxes to be replaced.

1971 Budget proposals

Although the 1971 Budget proposals have been hailed as a major reform, they herald changes in the form of taxation rather than in its nature. The merging of income tax and surtax constitutes the long overdue removal of an administrative absurdity. But effort and enterprise are still to be subject to the same type of progressive tax, and there is still to be no significant discrimination between income spent and income saved. Even the value added tax is little more than an administrative alternative to the purchase tax.

The number of different types of tax remains unchanged. There are still to be taxes on income, taxes on expenditure, taxes on capital, taxes on labour, and taxes on land. No coherent or uniform underlying principle has emerged. Yet the main political debate is over the rates of tax rather than the types. The political parties continue to accept the taxation of precisely those elements which they are seeking to encourage. When the objectives of economic policy include the promotion of price stability, capital investment, and industrial productivity, can there be a more manifest absurdity than the imposition of taxes on expenditure, profits, and income?

[1] For details see 'A Consumption Tax: a proposal for simplifying the tax structure', by R. A. Rayman; *Journal of Business Finance*, Summer 1970.

Conclusion

The principle of taxing individuals in accordance with their debt to society suggests that income tax, surtax, corporation tax, purchase tax, selective employment tax, social security contributions, death duties and capital gains tax should be abolished, and that the revenue produced by these taxes should be raised instead by an overall tax on consumption – one part to be collected from persons in the form of a progressive tax on personal consumption, the other part to be collected from corporations in the form of a proportional payroll tax. As the new taxes would fall on the acquisition of real goods and services, fairly complex transitional arrangements (including, perhaps, a once and for all tax on real as opposed to monetary wealth) might be necessary to maintain an equitable balance between existing owners of real wealth and subsequent purchasers. After an initial period of transition, however, the administration of the two new taxes may be expected to cost less than the administration of the eight old ones.

There are several alternative approaches to the question of tax reform. There are some who would like to see the burden shifted from direct to indirect taxation, possibly by means of a value added tax. This is a comprehensive purchase tax levied on the value added at each stage of production. Consequently, it has all the regressive and inflationary characteristics of the purchase tax, and at the same time, because it is levied on value added, it operates as a tax on efficiency. There are others who would like to see the burden of taxation shifted away from the earning of income towards the ownership of wealth, possibly by means of a wealth tax. Within the present tax structure, however, an annual wealth tax would be extremely difficult and costly to administer due to the inevitable problems of valuation, particularly with respect to real wealth. Savings would, moreover, suffer double taxation – an income tax when they were earned, and a wealth tax when they became part of the stock of wealth.

Any concession in the direction of a tax on wealth would represent a departure from the central principle of taxing individuals in accordance with their debt to society. A millionaire, who accumulates his wealth in the form of monetary claims, makes no demands on society until he begins to exchange them for real goods and services.

Nevertheless, under the proposed system of taxing consumption, an annual wealth tax would present fewer problems than under the existing system. It would apply only to the ownership of monetary claims. Real goods and services would have to be exempt, because the owner would already have paid consumption tax at the date of acquisition. As acquisition would constitute consumption for the purpose of the consumption tax, the only items left in the category of wealth would be financial and monetary assets. An annual wealth tax, possibly in the form of a rate of interest, could be charged on the cost of all holdings of monetary assets above a specified figure.

There would be few problems of valuation and no disincentive to save as long as the rates were no higher than the real (net of inflation) yield on a gilt-edged investment (i.e., to avoid cumulative erosion of capital). For, if the rate of wealth tax were 1 or 2 per cent, a person subject to a marginal rate of consumption tax of, say, 40 per cent would still get a 38 or 39 per cent 'rebate' on his savings. This form of annual wealth tax should not be very difficult to administer and might provide an incentive to seek out the most profitable investment opportunities.

The taxation of consumption ought not to excite political controversy along the conventional divisions between left and right. For the redistribution is not between rich and poor but between spenders and savers. In addition to bringing uniformity and simplicity to the tax structure, the implementation of these proposals may be expected to produce considerable economic advantages.

Individuals

The exemption of savings from taxation may provide a positive incentive for individuals to earn more than they spend, in other words, to produce more than they consume.

Business organizations

The removal of taxes on profits may encourage enterprise and risk-taking. The withdrawal of the 'subsidy' from expenses may help to stimulate corporate efficiency.

The imposition of a payroll tax on labour may encourage economy in the use of what is perhaps this country's scarcest resource – manpower.

The economy

A tax on personal consumption would be a potent instrument of economic control. In dealing with inflation or deflation, the government would be in a position to act directly and with immediate effect on consumer expenditure instead of indirectly and with delayed effect by acting on the income out of which the expenditure is made.

In attempting to bring employment to depressed areas, the government would be able to encourage labour intensive industries by remitting all or part of the payroll tax instead of having to encourage capital intensive industries by offering depreciation allowances.

The burden of a personal consumption tax would fall on spenders rather than savers. The deflationary impact of this redistribution in favour of those with a lower propensity to consume would mean that the total burden of taxation corresponding to any given level of national income could be reduced.

The consumption and payroll taxes appear no less suitable than a value added tax for the harmonization of taxation across national boundaries. They are also, perhaps, more sensitive instruments for allowing for regional differences.

An Eventful Year

by OUR AUSTRALIAN CORRESPONDENT

Whatever feelings the first few months of 1971 have inspired among Australian accountants, they are unlikely to include boredom. Important events have followed each other with a rapidity unusual in the accountancy profession.

THE year began with the collapse of Mineral Securities (Australia) Ltd, dubbed with the characteristic Australian penchant for contractions as 'The Minsec affair'. The collapse of this hitherto highly regarded mining investment company after less than five years as a public company would have created a major stir under any circumstances, but of particular interest to accountants was the fact that the company had, as the result of an accounting error, reported a substantial unaudited interim profit only weeks before, whereas there was, in fact, an equally substantial loss.

The error arose from the inclusion of a 'profit' of some $A6 million on the sale and purchase of market securities within the group. Disclosure of the true state of affairs became inevitable when counsel's opinion was obtained that the 'profit' should have been excluded from the consolidated accounts.

Enter the liquidators

Developments have since moved rapidly, culminating in an order to wind up the company and the appointment of a leading Sydney chartered accountant, Mr J. H. Jamison, as liquidator. Although later developments have since occupied the public eye, it is unlikely that the circumstances surrounding the accounting error will continue indefinitely to be ignored.

The obvious questions will present themselves to be answered – why was the error made and with what motive, and why was it only when counsel's opinion was received that the company was persuaded that the error had occurred? The Court was informed that total liabilities of Minsec were $A70 million and that shareholders could expect a surplus of $A17 million.

As if shaken by the Minsec developments, within days another major company was reporting an amended profit statement arising as the result of 'an accounting anomaly'. According to an announcement by the directors of the company, Meggett Ltd, the net profit for the year ended May 31st last was $A186,727 against the previously stated profit of $A313,532. The error had come to light when the auditors advised the incorrect recording of stocks and liabilities relative to oil-seed stored in country silos and on growers' farms in New South Wales.

Surprisingly enough, there has not been a great deal of press attention focused on accounting procedures

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as the result of this case. The same cannot be said, however, for the publicity attaching to the individual members of the profession involved in the obsequies of Minsec, and another large company in voluntary liquidation, Vam Ltd. The press is traditionally lacking in interest in the unspectacular facets of the chartered accountant's work, but his role as liquidator or receiver in the course of a major disaster is seized on as a fact of immense public interest.

'Enter the Liquidators' was the title given to a three-quarter page pen-picture of the three 'company doctors' in the shape of chartered accountants actively involved in recent company crises. A scrutiny of Mr Jamison's ancestry revealed that he was a direct descendant of the first Australian Surgeon-General, which probably makes him as Australian by birth as it is possible to be. Similar personal details were given of Mr B. H. Smith and Mr K. O. Humphreys, two other Sydney chartered accountants whose names are well known in this specialized aspect of professional affairs.

The accountants concerned have not sought the publicity given them in the press – publicity which seems generally accepted by a somewhat publicity-shy profession as a fact of life. However, many accountants will regret that the attention of the public is focused so strongly on what is the less common role of the chartered accountant, ignoring the positive contribution of members of the profession in maintaining the financial stability of the overwhelming majority of sound Australian companies.

More statements issued

Six months after the issue of two recommendations on accounting principles last year (*The Accountant*, December 3rd, 1970), the Council of The Institute of Chartered Accountants in Australia released three further publications to members last month. These comprise two further recommendations on 'The Treatment of Income Tax in the Accounts of Companies' and on 'Depreciation of Fixed Assets', together with the first of a new series of technical bulletins under the title 'Statement of Source and Application of Funds'.

Both recommendations replace earlier pronouncements and reflect considerable change in thinking since the release of their predecessors. The statement on depreciation is likely to arouse little controversy, even if it ignores some of the problems with the depreciation of buildings in the context of the rapidly increasing land values which are a feature of the Sydney scene.

It may be a different story with the income tax statement, which comes down strongly on the side of tax allocation accounting. This principle is still not accepted by a significant minority of members of the profession, including several leading firms. However, the Council of the Institute evidently reached the opinion that there was a need for a lead to be given on the subject, while recognizing that, in some special circumstances, tax allocation accounting might not be the most appropriate method of computation to use.

The Institute is at present engaged in a heavy technical programme with more than 20 projects in varying stages of preparation, so that the profession in Australia can expect a lead to be given in many controversial and difficult aspects of accountancy over the next year or so.

New educational policy

Important changes in the educational policy of the Australian Institute are foreshadowed in a statement released to members last month by the Council.

The new policy represents a marked trend towards greater reliance on tertiary educational institutions as the major source of entrants to the Institute. In place of the present intermediate and final examinations, the Institute expects to meet its needs by recognizing suitable courses in accounting offered by the universities and by the rapidly expanding colleges of advanced education.

Following completion of an approved degree or diploma course, prospective entrants to the Institute will be required to register for a 'final professional year' arranged by the Institute. This year will consist of a programme especially designed to orientate the student towards professional accounting, and will require his attendance at week-end seminars, lectures, and similar activities arranged by the Institute throughout Australia. The year will culminate in a final professional examination, the purpose of which will not be to provide a further screening of potential members, but as a test to ensure that the candidate has participated fully in professional activities throughout the year. Under this plan, the era of a disturbingly low percentage of passes should be a thing of the past.

As residents in all States know only too well, pressures on the Australian educational system are still very strong, and tertiary institutions are not yet able to meet the needs for all those wishing to qualify for membership of the Institute. To meet the needs of otherwise suitably qualified students not able to secure entry to an approved tertiary institution, the Institute proposes to continue providing its own examinations until the need no longer exists.

At the same time, the Institute recognizes that the present intermediate and final examinations are no longer entirely suitable as a basis for entry. It is, therefore, proposed to introduce a revised syllabus comparable with degree or diploma courses, and including certain topics such as economics, management and statistics not included in the present course.

The Institute also notes with gratification recent moves towards external study facilities by certain tertiary institutions, notably the University of New England and Mitchell College of Advanced Education,

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the newest addition to the institutions offering diploma courses in accountancy to a standard acceptable to the Institute.

Practitioner survey proposed

The University of New England has also been in the news recently in connection with two other important professional developments. The first of these is the decision of the Institute and the Society to sponsor a joint survey of the public practice sector of the profession in Australia, using the facilities offered by the interfirm comparison unit of the University. There has been a marked lack of reliable statistics in some aspects of professional activities in Australia, which the proposed survey may go some way towards fulfilling.

In a second important development, the chairman of the Australian Committee for Coding Rural Accounts announced that a grant of $A41,000 had been made by the Commonwealth Extension Fund towards a programme to encourage the acceptance of a uniform code of farm accounting devised last year by the ACCRA (*The Accountant*, June 25th, 1970). The base for this project will be the accounting department of the University of New England, which played a leading part devising the code. Advertisements have appeared calling for applications from suitably qualified persons to spearhead the drive to secure acceptance of the new code.

Public relations

No doubt inspired by the success of the computerized management games arranged by The Institute of Chartered Accountants in England and Wales and by the New Zealand Society of Accountants, the Institute has arranged to sponsor a business game on a national basis throughout Australia. Joint sponsors with the Institute in the project are *The Financial Review* and ICL.

When entries closed for the competition on March 12th, entries had been received from 532 teams, New South Wales providing the largest number with an entry of 273. Other States represented are Victoria (153 entries), South Australia (37), Western Australia (33), Queensland (23), Tasmania (12), and the Northern Territory (1).

Qualifying rounds are now in progress, and the final is scheduled to be held in Sydney on July 24th, 1971.

More delay in company legislation

With the passing of time, the prediction of supporters for stronger company legislation that the amended companies bills would soon reach the statute book are becoming less confident.

Despite the reported support of the State Premier (Mr R. W. Askin) for the principles of the New South Wales bill, and his indication that the passing of the bill would form part of his election platform, the subject was not mentioned in the recent election campaign, and it is clear that opposition to the bill is stronger than was originally believed.

Although the bill has the support of the accounting and secretarial bodies, as well as senior companies' officers and a significant section of the investing public, it has been strongly opposed by an influential lobby of the Institute of Directors, which has so far managed to prevent the bill reaching the statute book (*The Accountant*, January 28th, 1971).

In the meantime, the Victorian bill is under consideration and appears to have a reasonable chance of acceptance, as does the Queensland bill, which incorporates all the most recent amendments agreed upon by the standing committee of States' attorneys-general.

It will indeed be most unfortunate for Australia if a lobby, however influential, can prejudice the attainment of uniform company legislation, the lack of which was felt so sorely before the passing of the uniform laws of 1961. The present impasse provides much support for the views of the increasing number of business and professional men who favour the ideal of one Australian Companies Act.

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Tenth International Congress of Accountants

Australia as Host to the Profession

by C. W. ANDERSEN, O.B.E., Dip.Com., F.A.S.A., F.C.I.S.
Chairman of the Congress Committee

The International Congress 1972 will be held in Sydney, Australia, from the evening of Monday, October 16th, until the following Saturday. The host organizations will be the Australian Society of Accountants and The Institute of Chartered Accountants in Australia.
All previous Congresses have been held in the northern hemisphere. This was a natural corollary of the origins of the profession on an organized basis in Scotland and England, and its early development in European and Northern American countries.
The profession in Australia also has a long and honourable lineage. Motivated in its establishment in 1886 by migrant members of English and Scottish Institutes, it has received much inspiration from later links with accountancy organizations in Europe, America and Asia. Consequently, it has reached a stage of maturity enabling it to assume the exacting responsibilities of organizing an accountancy congress on an international scale.

ARRANGEMENTS for the Congress, under the Presidency of Sir Ronald Irish, O.B.E., F.C.A. (AUST.), a Past-President of The Institute of Chartered Accountants in Australia, are proceeding in the expectation that the main hall of the Sydney Opera House will be available for the opening, plenary and closing sessions. The President's Reception will be held in the Art Gallery. Both locations will provide notable settings for these important gatherings.

Technical programme

In defining the objectives of international congresses, the working party set up at the Ninth Congress in Paris has decided that they should play a more important role in the continuing and professional development of accountancy thought and understanding throughout the world.

Sir Ronald Irish, O.B.E., F.C.A. (Aust.), President of the Congress and a Past President of The Institute of Chartered Accountants in Australia.

With this role in mind the Congress Committee, assisted by many supporting committees, has developed a programme which gives emphasis to professional development and provides maximum facilities for individual involvement in the technical discussions.

The theme of the technical sessions is 'Financial Measurement and Communication' and the six topics chosen for discussion are:

- The ascertainment of periodic financial results
- Bases of accounting other than historical cost
- Principles and problems in consolidation
- The audit report
- Information for proprietors and others
- Information for management.

There will be one international paper and one international commentary on each topic. In addition, there will be eight national papers on each topic sponsored by specific participating bodies in various countries. When compiling his commentary on the international paper, the international commentator will have regard to the content of the national papers.

The international papers and commentaries will first be discussed in small study groups. Conclusions of

Mr Andersen is Executive Director of the Australian Society of Accountants.

study groups will be summed up by the authors of the international papers and commentaries at subsequent short plenary sessions. As two topics will need to be examined at separate study groups, conducted concurrently, members of Congress will have a choice of participating in the discussion of three of the six papers and commentaries. The programme is being so arranged, however, that members of Congress may attend all plenary sessions at which summaries of conclusions are presented. The greater emphasis on discussions in small groups rather than at large plenary sessions will permit the maximum degree of participation by individual members.

Recognized authorities throughout the world (as indicated in *The Accountant* of August 27th, 1970), have agreed to prepare the international papers and commentaries. There has been a splendid response also from the 48 accountancy organizations invited to arrange for the preparation of the national papers. Consequently, the combined international and national papers will focus a wide range of opinion on the topics to be considered, enabling them to be examined in depth.

Printed copies of international papers and commentaries will be sent to each member on receipt of his registration. Printed copies of all national papers will be available at the Congress, either for collection or later postage by surface mail. It is confidently expected that the book of proceedings to be compiled at the conclusion of the Congress, and later supplied to each member, will become an important source of reference on current accounting thought throughout the world.

Although all papers will be printed in English in the first instance, the possibility of their being translated into and supplied in other languages is being discussed with various international agencies. To provide the maximum possible individual participation in the technical discussions, simultaneous interpretation from English into French, Spanish, Japanese, and possibly German will be provided at the plenary sessions. Every effort is being made also for individual study groups to be composed of members able to converse in the same language while at the same time maintaining an international mix.

Social programme

This will include the important events traditionally associated with an international congress, namely, the President's Reception as a general introduction, a symphony concert with an alternate theatre production, a formal Congress Dinner and a concluding function to be known as a 'Farewell Corroboree'. It is hoped, however, that members of Congress will stay on for the Surf Carnival to be held at Manly Beach on the Saturday.

So that all members may attend the Congress Dinner, it will be held concurrently in three leading hotels with an appropriate spread of members and official guests. Whilst this is in progress, the wives of members will be entertained at a dinner and fashion show in the Round House of the University of New South Wales.

In order that members of the accountancy profession can meet one another in an environment conducive to free relations and discussion, Australian hosts and hostesses have readily agreed to ensure that visiting members and their wives are made to feel welcome and at ease in Australia. In furtherance of this objective, an evening will be devoted to private entertainment of visitors in Australian homes. Another feature will be the Congress Club designed to encourage informal meetings. Additional events of interest and entertainment are being arranged for visiting ladies.

Photo: New South Wales Government Office, London.
Sydney Opera House – venue of the Congress sessions.

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Development of the Profession in Australia

Since Australia, at the time of the formation of the first accountancy body in 1885, was a group of British colonies and The Institute of Chartered Accountants in England and Wales had not long been formed, it is not surprising that Australian accountants looked principally to the United Kingdom in seeking guidance as to the theory and practice of the new profession. The British influence still predominates in Australian accounting practice, although the influence of North American theory and practice has been felt to an increasing degree.

PARTLY due to the large physical size of Australia, with the resultant difficulty of communications between groups of accountants in the various colonies in early years, the profession grew in a somewhat fragmentary fashion, with a number of institutes vying for membership and recognition. In the course of time, however, following the cementing of the colonies into a single Commonwealth, rationalization has taken place, culminating in the present structure of two principal bodies within the profession. These are The Institute of Chartered Accountants in Australia, with a membership on June 30th, 1970, of 5,753, and the Australian Society of Accountants which, on December 31st, 1970, had a membership of 33,157.

The Institute of Chartered Accountants in Australia was formed in 1928, when a Royal Charter was granted to a group of accountants in public practice, principally members of the Australian Corporation of Public Accountants. Logically, since that time the Institute has paid particular attention to the qualification and needs of accountants in public practice, although, as in most institutes in other parts of the world, an increasing proportion of its members are no longer in public practice, but employed in commerce, industry, and government.

The Australian Society of Accountants was established in 1952 following a merger of the Commonwealth Institute of Accountants, formed in 1886, with the Federal Institute of Accountants, established in 1894. Later, the new society absorbed the Association of Accountants of Australia. With many members in public practice, the Society caters for all sections of the profession including those in commerce, government, and industry throughout Australia.

In a later development, the Society absorbed the Australasian Institute of Cost Accountants, the specialist cost accounting body. Formed in 1921 with similar aims and objects to the Institute of Cost and Works Accountants in the United Kingdom, this institute had established a high reputation in this field. The Society continues to offer postgraduate courses in this important aspect of accounting.

Educational standards

Both the Institute and the Society have broadly similar educational requirements of a high standard. The examinations of the Institute are orientated rather more towards the needs of the accountant in public practice, while those of the Society have ranged over a somewhat wider field to meet the needs of accountants in other areas.

In common with the experience in other countries, education for the profession in its early years was largely by means of correspondence. In recent years, however, the profession has been relying on public educational institutes such as universities, colleges of advanced education and technical colleges.

Australian Society of Accountants

The overall objective of the Society is to conduct a professional body of accountants in a manner which will enable its members to develop themselves professionally.

The Society does this

- **by defining the standards of education and training necessary for qualifications for membership;**
- **by prescribing rules for the professional conduct of members; and**
- **by providing members with the necessary services to enable them to best serve the community.**

The Society caters for all sections of the profession, including members in commerce, industry and the public service, as well as those in public practice. The Society has a membership of some 33,000.

A tertiary qualification gained at a University or College of Advanced Education with a pass in the Society's Qualifying Examination in subjects not adequately covered by the tertiary institution is required for membership.

Extensive recognition is given to qualifications of membership of English, Scottish and Irish bodies of accountants.

For further information please write to the Society at any of the following addresses:

Central Office: Accountants House, 49 Exhibition Street, Victoria 3000, Australia

Victorian Division: Same address as above

New South Wales Division: Accountants House, 117–119 Harrington Street, Sydney 2000

Queensland Division: 13–17 Wharf Street, Brisbane, Queensland 4000

South Australian Division: 25 Bank Street, Adelaide, South Australia 5000

Western Australian Division: Law Chambers, Cathedral Square, Perth 6000

Tasmanian Division: 97 Murray Street, Hobart, Tasmania 7000

All major Australian universities provide for studies in accountancy as part of degree courses in commerce and economics. Within recent years, colleges of advanced education have been established in several States, many of which offer well balanced courses in accounting. In Victoria alone there are over 20 such institutions affiliated to the independent Victorian Institute of Colleges, 11 of which are offering courses in accountancy. The general trend is for the colleges to issue degrees in place of former diplomas.

The trend towards education at tertiary institutes has been most marked in the case of the Society, which now requires completion of a course at an approved tertiary institution as a prerequisite for studying the final qualifying examination for entry to the Society.

The Institute exempts, from all except its final examination, candidates who have completed approved courses at a university or college of advanced education, but before such a candidate may enter for the final examination, he must be in the employ of a member of the Institute in public practice.

Both bodies now offer an active continuing education programme with the objective of enabling members to keep fully up to date with the rapid developments which are now occurring in many fields of accounting.

Concurrent with the progressive raising of educational standards, the Society has been giving particular attention to the development of education in accounting procedures at the sub-professional level, otherwise known as the 'technician level' or 'the second tier'. A course in accounting procedures has been developed through the Institute of Affiliate Accountants (formerly the Institute of Commercial Studies) and is receiving increasing support from employers and teaching institutions. The course is likely to become increasingly popular for students who lack the academic qualifications for entry to the professional examinations.

Both the Institute and the Society require a similar period of practical experience before admission, namely five years, reducible to three years in the case of graduates. Because of its particular interest in and responsibility for the field of public accountancy, however, the Institute requires that the practical experience be gained in the office of a chartered accountant in public practice. The Society's requirements may be gained by practical accounting experience in a wide variety of fields, including industry, commerce, and government.

Professional services offered

The profession in Australia now performs the same wide range of services offered by accountants in the larger industrial and commercial nations in other parts of the world. Auditing remains one of the most important functions of the accountant in public practice, as does the filing of taxation returns and the furnishing of advice on estate planning and taxation problems. Particularly in country areas, many accountants prepare financial accounts of smaller enter-

Mr J. R. Harrowell, F.C.A. (Aust.), President of The Institute of Chartered Accountants in Australia.

prises, but write-up work of this kind, although still important, is decreasing somewhat in importance. The most rapidly growing area of activity of accountants in public practice is that of management services. Most of the larger firms of chartered accountants now provide advice to management on a very wide range of services, including some recently developed aspects of management advisory services which have not hitherto been regarded as falling within the province of the accountant. Personnel management, operations research and market research are examples of services of this kind.

As in most industrialized countries under modern conditions, accountants in public practice are now significantly outnumbered by those employed as accountants in such fields as government, industry, and commerce. In the latter areas they are applying sophisticated methods and procedures. Moreover, many members of the profession have been appointed to senior financial and administrative positions in industry, clearly indicating the value attached by the community at large to the services of the accountancy profession in Australia.

The impact of the development of the computer is now being widely felt, and it is expected that developments in the area of electronic data processing will be rapid. Computers have become commonplace among larger companies in Australia and accountants have found it necessary to take steps to master the techniques involved, discarding the instinctive fear which is inevitable in the face of major developments. Both the Institute and the Society have offered courses on aspects of electronic data processing, ranging from short seminars on specialized aspects to comprehensive appreciation courses covering the whole range of the application in the use of computers.

Licensing requirements

Licensing requirements affecting the profession in Australia differ in each State. Throughout the Commonwealth of Australia, provision is made for the registration of tax agents controlled by tax agents boards, and no person may furnish returns for profit on behalf of a third person without such registration. In New South Wales and Queensland there is registration of public accountancy activities through Public Accountants Registration Boards, and in other States there is licensing of auditors of companies through the Companies Auditors Boards in Victoria, Tasmania, Western Australia and the Australian Capital Territory and through the Companies Auditors and Liquidators Board in South Australia. Membership of the Institute or the Society is accepted as qualifying for registration in the case of all the regulatory authorities mentioned.

Assistance to south-east Asia

Apart from participating in the conferences of Asian and Pacific accountants, both bodies played a part in assisting in the education of accountants in south-east Asia. With the active support of the Australian government under the Colombo Plan, the Society has provided examining facilities in a number of countries in the area, and there are currently some 1,400 members of the Society in south-east Asia who have completed their examinations either in their own countries or in Australia.

Although precluded under its Royal Charter from conducting examinations overseas, the Institute as also provided, under the Colombo Plan, examination facilities and training in Australia for many students from south-east Asia.

Future of the profession

Notwithstanding the differing sphere of activity and influence of the two bodies in the past, a growing degree of identity of interest has become evident, and there is an increasing overlapping, not only of membership, but in the services offered to members. This trend towards unity of the profession, which has been apparent throughout the world in recent years, led to discussions between the two bodies with the objective of achieving amalgamation in the interests of professional unity in Australia. Although a scheme approved by the Councils of the two organizations was subsequently rejected by the members of the Institute, the Councils of the Institute and the Society are continuing to work together on matters of mutual interest for the benefit of all members of the profession.

Mr L. P. Crockett, F.A.S.A., President of The Australian Society of Accountants. •

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AUSTRALIA

One practical example of this co-operation is the Accountancy Research Foundation, an independent entity endowed equally by both bodies to undertake accountancy research and to formulate general accounting principles applicable in Australia. The Foundation recently published its first accounting research study, *Statement of Australian Accounting Principles*, written by the Director of the Foundation, Mr W. J. Kenley, M.COM., F.A.S.A.[1]

The Institute and the Society are actively co-operating in the organization of the Tenth International Congress of Accountants, of which they are joint hosts. This congress will be held in Sydney from October 16th to 20th, 1972, and it will be the first occasion on which an international congress of accountants has been held in the southern hemisphere.

The Institute and the Society are participating also in the deliberations of the International Working Party set up at the conclusion of the Ninth Congress to report on the part played by international congresses in the continuing development of accounting thought and understanding throughout the world.

The accountancy profession in Australia is playing its full part in contributing towards the efficient management of the increasingly industrialized Australian economy. In this context, both bodies are striving to raise accounting standards and to assist their members to discharge the increasing responsibilities which face them in all fields.

[1] Mr Kenley is one of the contributors to this Supplement.

Accounting Research

An International View

by W. J. KENLEY, M.Com., F.A.S.A.

ONE of the pressing problems facing the accountancy profession in nearly every country is the need to devote much more time, effort, and resources to accounting research – for in accounting there are many problems an acceptable solution to which can only be found through concentrated research effort. This is a situation which exists just as much in Australia as in other countries, and in an attempt to meet this challenge the two professional bodies in Australia, namely the Australian Society of Accountants and The Institute of Chartered Accountants in Australia, have established as a joint undertaking the Accountancy Research Foundation.

The charter of the Foundation is short – but it encompasses a great deal, for it has been established for the purposes of consolidating and refining accounting and auditing principles, and of conducting research into unresolved problems of accounting and auditing.

The Accountancy Research Foundation is incorporated in Australia as a company limited by guarantee, and its board of trustees, and its main operating committee – the accounting and auditing research committee – comprises equal representation from both Australian bodies of accountants. Finance for the work of the Foundation is also contributed in equal shares.

In planning a future programme of work for the profession it was quickly realized, however, that a great deal could be learnt from the experience of our professional colleagues overseas and while much information can be exchanged by correspondence a personal visit would achieve much more. It was a cause of great satisfaction therefore to the Foundation, and indeed to the profession in Australia, when in 1970 I was awarded a Fellowship by The Winston Churchill Memorial Trust to proceed overseas to study methods of accounting research by the professional associations in Canada, the United States, the United Kingdom, and South Africa.

Unique opportunity

Such a visit is probably unique, for in travelling some 33,000 miles I had the privilege of discussing many aspects of accounting research with representatives of

The author of this article, Mr W. J. Kenley, M.Com., F.A.S A., is Director of the Australian Accountancy Research Foundation.

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For new readers of this book it may be convenient to mention that in recent years the whole approach to auditing has changed. The old concepts of routine checking and vouching have gone and new standards are being set and new procedures evolved. This has become more than ever necessary by the increasing use of computers for which auditing techniques now have to be designed.

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ten different professional accounting bodies in the English-speaking world, professors of accounting at six universities, senior partners and their staff in many of the larger international accounting firms, as well as members from smaller firms and from industry and the government service.

What general impressions can be gained on a trip of this nature? Obviously much detail is learned about what research is being done, how this work is being organized, and why some alternative approach is not adopted. But an impression that clearly stands out is the tremendous interest that exists overseas in what we are doing as a profession in Australia – not only in research-type activities, but in developments within the profession generally. There is both envy and admiration for what we have done in setting up the Accountancy Research Foundation – a Foundation which is, as mentioned above, jointly sponsored by the Institute and Society.

Not only is this achievement envied by the professional bodies themselves, but it has been suggested as a model for the profession to follow in the United Kingdom. Since then, of course, the Accounting Standards Steering Committee has been established by The Institute of Chartered Accountants in England and Wales, in association with the Scottish and Irish Chartered Institutes, to do much that such a Foundation could do had it been established.

To some practitioners the work of this new committee, and indeed the work of research committees of other Institutes, is not regarded as 'research', but as technical activities. In this regard I have used the expression 'research-type activity', because I feel that we can in fact spend too much time in attempting to set down a narrow and precise definition of 'research', whereas in accounting work which is essentially of a research nature can proceed over a very wide field indeed.

What is research?

For example, I suggest that much of the so-called 'technical' work of our professional bodies both in Australia and overseas is in fact 'research' work – it involves inquiry, codification of existing practices, an evaluation of alternatives, and suggestions as to preferred practice based, we hope, on sound theoretical arguments. What good purpose is really served in attempting to distinguish this type of work from an inquiry into more basic concepts? Thus I prefer to use the expression 'research-type activity' to encompass any inquiry into problems affecting the profession, whether these be problems of practical application, or problems of basic concepts affecting the practice of our profession, or an evaluation of the procedures that are actually followed in our practice.

But in case you might feel that such a definition is too wide let me quote from the words of John L. Carey, who, after a lifetime of service to the profession, had this to say not long before he retired from the post of administrative vice-president of the American Institute of Certified Public Accountants:

> 'It is obvious that the practice of any profession involves the use of specialized knowledge. Such knowledge must be produced or discovered by someone; it must be codified, arranged, and made available for retrieval before it can be used. All these processes are included in the term 'research'. In a rapidly changing environment, a profession must have a continuous stream of new knowledge, and new arrangements of existing knowledge in order to solve the new problems which constantly arise. If the profession cannot cope with these problems society will seek solutions from others, and the profession's scope and opportunities will be limited accordingly.
>
> 'To many Institute members the word 'research' may appear synonymous with research in accounting principles, since in recent years that subject has had the centre of the stage. But research is needed, and some has been done, in many other areas of concern to the CPA profession. Much needs to be learned in the fields of auditing, tax accounting, computer technology, business information systems, financial controls (in business, non-profit organizations, and government), accounting education, attraction and retention of personnel, and management of an accounting practice. There are endless opportunities for development of useful knowledge which would have an early economic pay-off for CPAs. But resources for research projects are always limited.'

Much the same thought has been expressed also by others who have also given many years of service to the profession and who, because of this, probably have a unique appreciation of the real needs of the profession in this vital area. For example, the following is a short quotation from a document which I had the opportunity of studying in Scotland:

> 'Accounting research can cover not only original thought but also the process of analysis and synthesis of the results of the labours of others: if it is to be of value it must be published. . . . The subject matter of "research" may be anything which affects the work of a qualified accountant, whether in public practice or otherwise, and may range from the principles of debit and credit, through accounting techniques, to questions of professional ethics. It is in this broad sense that the term "accounting research" is used. . . .'

But such a wide definition of 'research' also imposes difficulties, for it could conceivably include practically any type of inquiry which we, as a profession, wished to pursue. In this connection, however, there are probably 'natural' limitations on our activity for no project or inquiry would surely be undertaken unless it was designed either:

(*a*) to give information and possibly guidance to members on day-to-day matters; or

(*b*) to stimulate new developments in accountancy thought.

Expressed somewhat differently in all accounting research, before any particular project is commenced

Dear Ted,

You mentioned that you & Irene might go to Sydney for the Accountants Congress in 1972. Nellie and I are also interested and I hear that Escombe McGrath are producing Group Inclusive Tours which allow as few as 14 adults to travel together there and back and visit other places en route for as little as £608 each – this includes hotel rooms and sightseeing tours –

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Even if Irene can't go it would still be worthwhile contacting Escombes as they will probably know of someone else who could make up the fourth in the Group.

See you Soon,
Yours,
John.

Nellie says she's only going for the beer – misguided lass!!

the question must be asked: 'If the proposed project is carried through to a successful conclusion, is there a reasonable probability that the members of the Institute concerned collectively, or a reasonable number of members individually, will be able to benefit from the results in some practical and desirable way?'

Practical limitations

However, while we might use a wide definition of research, there is, nevertheless, some practical limitation on what can in fact be done by a professional organization under the heading of research. This limitation is, as evidenced by the question just posed, based on practical usefulness, but at the same time it must not be permitted to hinder basic research of a type which may not achieve spectacular results in the short run. Indeed in accounting, as in other fields of research, it may well be that the profession must realize that it will have to finance basic research, probably in an academic institution, in an area or areas where the likely results (if any) are unknown. It may well prove to be that nothing worth while will come out of such inquiry, but inquiry there must be if only to reject definitely certain basic assumptions and procedures and to continue the search for alternatives, knowing on sound grounds what we can reject.

The real need for research in accounting in all countries seems to be well illustrated in the following 'lead-in' to an article 'Controversial areas of Corporate Reporting Practices', which was published in the October, 1969 issue of *Financial Executive*:

> 'When considering corporate reporting practices, a company's management must weigh the immediate effects of the method used upon its 'corporate image'.'

In Australia, as is the case also in the United Kingdom, the responsibility for the accounts of a company is that of its directors. This is emphasized throughout our current professional literature. But a company's accounts are prepared by an accountant who, I hope, is also a member of one of our professional bodies. Can we then accept the implication of the view expressed above, that the accounting method or methods to be followed in preparing a company's financial reports will be chosen having in mind the effect of such method or methods on disclosed results, and thus on the corporate image? I suggest not. Our obligations as members of the accountancy profession are clear – we must follow accounting principles and accounting practices (and now, in the United Kingdom, accounting standards) which have been accepted by the profession as being necessary to present a 'true and fair view', even though these may well adversely affect the corporate image.

Today in Australia, as well as overseas. we hear and read much criticism of the basis of current reporting practices, and of the need to amend our ways so that the financial statements which are really the end-product of our labours can be made more meaningful and useful to readers. It is this type of public criticism

that is really giving an impetus to research by the professional bodies in each country, and much is being done to review, and amend if necessary, existing practices, and to develop new practices to meet new situations that have arisen with the ever-increasing complexity of modern large-scale business.

However, work in this area is both time-consuming and costly. Professional organizations, and academic institutions in all countries are finding that even with a tremendous amount of voluntary help they are just not able to devote the financial resources necessary to achieve quicker results. In addition, our experience in Australia is exactly the same as in other countries, in that an equally important problem is shortage of trained staff who are willing to undertake this type of work for the profession. With such limited resources there would be advantages in closer international co-operation to avoid unnecessary duplication of effort – and some action has already been taken in this area.

New standards

But research-type work in accounting, and especially the development of accounting principles or standards is not easy, especially when, having regard to our past practices, we are striving to find a better result, or method, or principle, or standard, that will meet the demands that are now being made on the profession for more meaningful financial reports. However, although through our research efforts we are often striving for something new, this does not necessarily mean that our practices in the past must be regarded as unsatisfactory. In this regard, Sir Basil Spence quoted in his book *Phoenix at Coventry* from the writings of Barbck as follows:

> 'Only a fool will build in defiance of the past. What is new and significant always must be grafted to old roots, the truly vital roots that are chosen with great care from the ones that merely survive. And what a slow and delicate process it is to distinguish radical vitality from the washes of mere survival, but that is the only way to achieve progress instead of disaster.'

In the second chapter of this stimulating book, Sir Basil Spence also used the expression:

> 'I believe that only in one's imagination can there be perfection. There is no perfection in reality, for it always holds something that jars on the picture carried in the mind's eye.'

Could I suggest that these thoughts could also apply to the accountancy profession, just as much as they were meant to apply to the profession of architecture? No matter how much we try, no matter the intensiveness and dedication of our research efforts, no matter how much we would like to see a clearly established list of accounting principles to which we could turn to solve all the difficult and diverse problems that arise during the course of our practice, there will be no perfection in reality – the diverse nature of our daily tasks will inevitably mean that there will be something in our list of principles which jars on the mind's eye, and perhaps just doesn't ring true when we are considering a particularly complex problem – possibly dealing with some new accounting situation that has arisen because of our ever-changing business conditions.

Looking to the future

But if the framework we have developed does not quite meet a new situation – don't let us disregard entirely the existing framework, but through planned research work by the profession let us strive to find real solutions to the many problems now facing us.

Without a great deal more research, the profession will not be able to meet the demands now being made of it; but in all countries visited it was found that the profession is doing its best to meet this challenge. More resources, in finance and manpower, are needed, but many more people are becoming involved in the research efforts of their professional bodies. While initial progress has seemed slow to many, generally a solid base has been provided for future and more rapid results. The results of this research work may not, indeed will not, be as spectacular as results that are sometimes achieved in other scientific research; they are, nevertheless, vital to the future well-being and progress of the profession, and of all its activities research must inevitably assume greater importance in the plans of each professional organization.

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The Immigration Scene

Australia Needs Professional Services

The stone dropped on the waters of Australia's pool 200 years ago, but the ripples are still gaining momentum.
In the early days, there was only a small colony to be administered. Nowadays, Australia is a nation on the move.

AUSTRALIA'S initial population of only a few hundred settlers has swelled to 12·6 million. The old days of wheat and wool are past, although they still play a big part in the country's economy.

But, since the end of the Second World War, the accent has swung to industrialization – a climate which has been engendered by the inception of a large-scale immigration programme and the uncovering of mineral wealth impossible to estimate, buried beneath the continent's surface.

In industrial terms, Australia is considered around the world to be a nation 'on the move'. One of the country's leading industrial figures, Sir Alan Westerman, executive chairman of the Australian Industrial Development Corporation, prophesied recently that in the next 15 years Australia would be one of the leading industrial nations in the world.

Need for accountants

Australia's progress along the path to industrial greatness has created opportunities for people in all walks of life. Professional people, skilled, semi-skilled, and unskilled – all have a part to play in the making of a nation.

Well-qualified accountants with sound experience, for example, have excellent prospects in Australia. A glance at the Saturday edition of any of Australia's major newspapers provides useful and encouraging information about the range of opportunities. Only recently a firm in Perth, Western Australia, was seeking in Britain 'an indefinite number of chartered accountants . . . available to single and married applicants (male or female) in the age group of 20–45 years'. The firm offered salaries of between $A4,000 and $A8,000 a year, according to qualifications and experience.

Another firm, in Sydney, New South Wales, on the other side of the Australian continent, was looking for 20 chartered accountants under 30 years of age. Salaries offered ranged between $A5,000 and $A7,000 a year, according to qualifications and experience In a more general vein, salaries in Australia range from $A3,500 for a newly-qualified accountant to $A10,000 or $A12,000 for a senior experienced person.

The Institute of Chartered Accountants in Australia, 333–339 George Street, Sydney, NSW 2000, and the Australian Society of Accountants, 49 Exhibition Street, Melbourne, Victoria 3000, are the main organizations within the profession. Although membership is not mandatory, it is difficult to obtain employment at the professional level without having been accorded professional status by one of them. Each publishes a monthly journal, *The Chartered Accountant in Australia* and *The Australian Accountant* respectively.

Most members of the Institute of Chartered Accountants in Australia are in public practice, whilst those of the Australian Society of Accountants are engaged in every sector including government, industry, financial institutions, and public practice.

Professional Qualifications

Membership of the Institute of Chartered Accountants in Australia is available to members of the three Institutes of Chartered Accountants in the United Kingdom and Ireland. The Australian Society of Accountants will admit, without any additional examinations or experience requirements, members of the three Institutes of Chartered Accountants in the United Kingdom and Ireland, or of the Association of Certified and Corporate Accountants. Members of the Institute of Cost and Works Accountants, or of the Institute of Municipal Treasurers and Accountants, may be required to submit to a further examination.

In the state of Queensland, registration is necessary to practise as a public accountant, whilst in New South Wales the auditing of accounts of companies and other organizations is restricted to registered public ac-

We are indebted for this information to the London office of the High Commissioner for Australia.

ountants and company auditors. In other states and erritories, there are various State and Commonwealth aws requiring registration for practice in certain pecialized areas, such as company auditing and the iquidation of financial entities, municipal and local overnment accounting and auditing, and the preparaion and submission of taxation returns.

The addresses of the Public Accountants' Registraion Boards and Companies Auditors' Boards, from vhom specific information about registration requirenents may be obtained, are available from the Adviser n Professions (attached to the Australian High Commission), Canberra House, 10–16 Maltravers Street, London WC2.

An accountant intending to settle in Australia can rrange for a report on prospects to be obtained hrough the Adviser on Professions. This may, in fact, esult in offers from prospective employers in Australia. For those in professional practices, it may be worth ontacting some of the leading firms of chartered ccountants with offices in the United Kingdom and Australia.

Actuarial assessment

For actuaries in Britain, the prospects are also exremely good. In 1950, there were fewer than 50 qualified actuaries in Australia; now there are about 75, all of whom are Fellows of the Institute of Actuaries of Australia and New Zealand.

Of the fully qualified actuaries in practice, about 5 per cent work in life assurance offices, about 10 er cent are in consulting practice, and the remainder re spread through government service, banking and ther areas of commerce. Many are employed outside he traditional functions of actuarial duties and hold enior administrative positions.

Consultants and actuaries in government service isually do the same kind of work as their counterparts n Britain. There is a demand for actuaries to adminiser superannuation and pension funds and the Recruitnent Officer, Commonwealth Public Service Board, Canberra House, 10–16 Maltravers Street, London WC2, can provide further details about opportunities n the office of the Commonwealth Actuary (a branch f the Australian Treasury).

The Institute of Actuaries of Australia and New Zealand is not an examining body and admits as its ellows people holding the qualifications of Fellow of he Institute of Actuaries (London) or the Faculty of Actuaries in Scotland. For many years, both British nstitutions have arranged for students to sit for their xaminations in Australia.

In 1969, a school of actuarial studies was established t Macquarie University, Sydney, NSW, in which ctuarial studies form part of a curriculum leading to a BA degree.

Further information about the actuarial profession n Australia may be obtained from the Adviser on Professions at Canberra House.

Age and experience

In banking, there is a demand in Australia for experienced personnel, particularly in the younger age groups. The banks are particularly interested in men with formal banking qualifications, or passes in some of the examinations of the Institute of Bankers. Occasionally, they also recruit graduates in some specialities, such as economics or commerce.

Older and more experienced people would need to make careful inquiries about their prospects. Unless it is difficult to recruit personnel in Australia, banks will not normally engage applicants of mature years. Those in the younger age groups, however, would be well advised to contact the managers of the various Australian banks represented in London for further information.

Obviously, the greatest difficulty facing the prospective immigrant to Australia lies in obtaining either a firm offer of employment before arrival in Australia or in eliciting satisfactory response upon which a decision can be made. Although the employment market tends to favour those who are fully qualified, with experience and within the preferred age groups 25–45, there is always room for the experienced and unqualified as well as the adventurous. Australia has absorbed, since its foundation, a considerable number of such people and it looks as though it will continue to do so for some years yet.

Going to Australia?

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Pooh-Bah in the Money Market

Australian Brokers' Multiple Role

by BERRY RITCHIE

BEFORE criticizing Australian stock exchanges too severely for their role in the boom in mining exloration shares, look at Leopold Minerals. In spite of 'oseidon, in spite of Tasminex and International Mining Corporation, in spite of North West Oil and ts ludicrous platinum claims, it only needed Leopold Minerals to announce that it had found values up to ·8 per cent nickel in Western Australia for its shares o leap to dizzy heights. This would not have happened f there were no willing buyers prepared to gamble n unsubstantiated and totally inadequate information.

This said, I can think of no convincing reason why eopold Minerals' shares were not suspended imnediately the board made its statement about its high rade nickel core near Marble Bar. With so many revious examples to demonstrate the likely effect of uch information, no stock exchange worth its salt hould have permitted dealings in the shares until he facts were more clearly defined. Admittedly eopold Minerals was suspended about a week afterards, but at the chairman's request.

In their reluctance to take action in affairs of this ind, the Australian stock exchanges, not to mention ondon, have revealed their basic weakness. It is not, n my opinion, true to say that the scandals of the nining share boom and subsequent slump reflected hortcomings in Australian stock exchange regulations. Obviously there were areas which the regulations did ot cover, but the general powers of the stock exchanges re very wide and can be extended to deal with almost ny eventuality.

The fundamental point to be recognized is that in ny market which is not moribund, new developments re inevitable which existing rules do not cover. Regulations can never be devised which anticipate very change, especially as so many people spend so nuch time looking for loopholes. Stock exchange ouncils must therefore be prepared to act to meet ircumstances as they arise even if the letter of the law s undisturbed.

Of course, they have in Poseidon a very good precedent o use in their defence. What Poseidon proved, or ppeared for a long time to prove, was that a grassoots mineral discovery could be made by a small ompany with an equally minute capitalization, transforming its value. The Mount Windarra ore body was a glowing example of what could be found by anyone. Therefore, claims of this sort by anyone – literally anyone – could not automatically be discounted.

Obviously, the stock exchanges would have found it very hard to suspend Poseidon's shares for very long. Its drilling was properly planned, its results carefully and professionally assessed, the quality of its directors' statements high. Equally, its shares were widely traded and substantial holdings were built up by eminently respectable companies and individuals. Nothing untoward occurred, at least in the context of normal business on any stock exchange.

No certainty

Subsequently, Poseidon has not been so fortunate and its activities have been one of the major forces producing the changes in stock exchange regulations we have already seen. Its initial calculations of ore reserves have proved optimistic, if only to the extent that the ore body is much more complex than was at first assumed.

This kind of misjudgement is not one that the stock exchanges can legislate against. Provided that companies report their findings in good faith and on the exact advice of their professional advisers, they cannot be held responsible if the results turn out to be rather different later on. It is probably fair to argue that, in general, assay figures have been published too early and that it would have been far better if nothing at all was said by anyone until a complete drilling and assay programme had been completed. It is also conceivable that the stock exchanges could insist that information be withheld until it is sufficient to give a real idea of what has been found. But in view of the risk of unofficial leaks this is probably impracticable and immediate if incomplete disclosure is the best available solution.

Poseidon and other companies have indeed been taken to task for ill-timed and misleading information, and the stock exchanges are showing a growing readiness to suspend companies which transgress in this area. It is just because they had apparently advanced some way towards muzzling indiscreet company

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* As the biggest institutional lender for housing in Australia, the Commonwealth Savings Bank is a recognised authority on housing costs, finance, etc.

* The Migrant Information Service was the first of its type in Australia and in the past ten years it has helped nearly 1½ million newcomers to Australia with all sorts of problems—housing and accommodation, social services, employment, education, overseas remittances, hospital and medical benefits, etc. There are centres in the six State capital cities and at other selected points.

* The Commonwealth Trading Bank provides every trading bank service—cheque accounts, overdrafts, overseas remittances, etc.

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ookesmen that their failure to jump immediately on eopold Minerals was such a pity.

Some of Poseidon's actions have produced official eaction from the exchanges and resulted in changes n the regulations. Its proposed share issues to Samin nd other companies, coupled with the notorious share wap between Great Boulder Gold Mines and Western Mining, have brought an important change. Directors ow are not allowed to make placements of their ompany's shares without asking all the existing hareholders for their permission if the issue materially lters the balance of control.

akeover insurance

The deal between Western Mining and Great Boulder, which effectively prevented any possibility of the latter uccumbing to a takeover bid from Austim and Mining Finance Corporation through the acquisition of Loloma Mining Corporation, was significant in more ways han one. In the light of cold logic, it was entirely roper under Australian company law for Western Mining to make such a deal and for Great Boulder's irectors to accept. They had no legal obligation to call or permission from their shareholders, and a positive bligation to their companies to prevent a takeover if hey felt that it would be damaging.

Perhaps it can be said that in other countries such ction would not have been permitted; that it deprived hareholders of the important right to be consulted when the very nature of their investment was being ltered; but in Australia such standards did not apply.

Admittedly the fact that stock exchanges have now cted to prevent such deals occurring again suggests an verriding popular belief that a bargain should not ave been made on those terms. The exchanges' action was in my opinion a responsible one and a sign that they re at least as aware of the standards that should be dhered to as is Western Mining Corporation.

Another change in stock exchange regulations is the ew limitation on share dealing in their own companies y directors. I suppose the real catalyst behind these levelopments was Tasminex. Apart from the scandalous way in which Tasminex's shares were run up in London on totally unsubstantiated remarks by the hairman, the report prepared for the Tasmanian and New South Wales governments indicated large scale lealings in the shares by directors of Tasminex and ssociated companies.

Regardless of the purpose of these activities, it is bviously improper for the management of public ompanies to behave in such a way. At the very least t must create contradictory corporate and individual nterests. Even an innocent sale by a director can roduce invidious rumours unless his action is made ublic and his reasons given. It is patently correct to orce directors to subordinate their personal interests o those of the company they serve and the new egulations brought in by the stock exchanges are oth necessary and admirable.

Dealing on credit

Lacking such intriguing moral undertones, but in some ways even more important, has been the tightening up of dealing regulations on the exchanges. A major contributor to the share boom was the exchanges' failure to insist on speedy delivery of scrip or of prompt payment by clients. It is impossible to assess how much impetus was given to the market by the creation of what amounted to almost unlimited credit for short-term buying and selling. So enamoured of spiralling prices did the brokers become that they were almost fatally willing to do business with anyone. They disregarded their inability to process the orders they took. They scouted and in cases officially abandoned limitations expressly designed to prevent orders piling up uncompleted although executed.

No convincing excuse has yet been produced for the laxity that prevailed at the height of the boom, but the lesson does appear to have been learned. Several companies had their share quotations withdrawn because their registration lists were not up to date, and at least one is still without a market because it has yet to untangle the mammoth backlog of share dealings.

However disastrous the effect of the confusion, it is difficult to blame anyone too severely for what happened. Admittedly brokers are supposed to report other firms which fail to complete bargains within ten days, but when the laggards are the victims of other people's inadequacy it is not surprising that a blind eye is turned. The sheer volume of business overpowered company registrars, who had no means of anticipating the avalanche that swept over them.

With hard work and computer time, the problem of keeping pace with massive share dealing is being overcome. The exchanges have realized that it is essential to keep everyone up to scratch and are taking a much harder line. This, rather than any substantial changes in rules, is what is needed to solve this particular problem.

The broker's role

The failure of Mineral Securities is too recent to have produced any concrete changes in stock exchange regulations. So little time has passed that the full facts of the group's collapse are not yet known and it is almost too early to begin assessing the implications.

Mineral Securities has focused attention on the whole role of stockbrokers in the Australian financial community. More than that, it has shown that, apart from the major banks, the stockbroking fraternity conducts the whole of Australia's money business. Between them, the leading broking houses in Melbourne and Sydney are brokers, jobbers, issuing houses, merchant banks and investment trusts.

This quintuple role staggers a visitor from London. My own judgement is external and relatively inexpert, but senior partners and directors of large London broking houses and major merchant banks have forcefully expressed their astonishment at the structure of

the Sydney and Melbourne money markets outside the major (and government backed) banks.

There are two main dangers in the Australian dependence on stockbrokers for all these services. The first is the risk of conflicting interests. For a start, it stretches the UK imagination to hear that brokers act both as agents for other investors and as principals on their own behalf.

Stock exchange regulations state categorically that brokers can only deal as principals after advising clients of their intention to do so, and after fulfilling any outstanding orders for clients. But it is difficult to assess the extent to which self-interest might reduce the effort put into encouraging clients to take up investments which the broking house deems attractive.

When it comes to new issues, brokers receive a fee for their services, but if their clients also take up large holdings, guaranteeing a premium for the shares, they gain additional revenue. This in itself may be a good thing – the value of shares issued in a bull market does not provide a guide to the competence of the issuing house – but the right of any broker to act as an issuing house is questionable. Any sponsor of new shares should at least have to balance prospects of short-term profits on one inadequate issue against continuing long-term business in other issues.

The involvement of brokers in the short-term money market was a major factor behind both the growth of Mineral Securities and its final fall. The sums lent were very large. Bill Acceptances, an offshoot of Patrick and Partners, was owed $5 million by Mineral Securities, while Ord BT, a new merchant bank backed by brokers Ord Minnett and a British company, was due $7·5 million.

Here again, nothing sinister can necessarily be read into this situation, but it does pose questions of divided responsibility. It appears, for example, that some of the firms which secured liens over Mineral Securities' own shareholdings as collateral security against their loans must have had prior reason to take such precautions. In other words, they knew or suspected something was wrong with the company.

If their business had been solely that of lending money in the market on current rates, they would not have been in the privileged position of brokers to other aspects of Mineral Securities' activities. As a result, they might well have been more reluctant to advance such large loans in the first place.

In essence, however, the real problem has been the undefined nature of Australia's unofficial inter-company short-term money market. Blown up to gargantuan proportions by the boom conditions, with consequent demands on credit in any form, it outstripped itself. Previously, the bulk of the money circulating in the inter-company market came from groups like BHP, CRA and Western Mining and did not reach the hands of organizations of lesser repute or standing. As such, it needed little policing.

Inflated by funds from small companies like Newmetal Mines and with interest rates boosted by overwhelming demands for cash from Mineral Securities and others, it went out of control.

Cost of independence

Among Australian brokers, and even in the major banks, demand for change is noticeably lacking. Simply, the argument for *laissez-faire* is this:

The Australian financial community, and indeed Australian industry as a whole, is small in terms of London, Europe or America. Apart from boom markets, the amount of business done is not sufficient to support separate jobbing and broking firms, independent merchant banks and issuing houses, or investment trusts not directly fostered by brokers. Even where it is conceded that the present situation is not working properly, it is said that Australia could not support the cost of separate organizations for all these functions. It is pointed out that, in Canada, Toronto introduced separate jobbing and had to abandon it because of the cost of support.

This attitude is all right as far as it goes. Mineral Securities exposes its faults. If Australia wishes to retain its limited and relatively undefined financial market structure, while at the same time retaining the confidence of much larger and more formally constructed markets, it must adhere to a high standard of business integrity. Its problem is how to achieve this without formal guides to what the standards should be.

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FINANCE AND COMMERCE

Valuing Brayhead's Subsidiaries

IN reprinting the accounts of companies 'Finance and Commerce' invariably used to omit the auditors' report because when their report is clear and unqualified it can, in effect, be taken as read. But that is far from the case in the report of Cooper Brothers to shareholders in Brayhead Ltd. The auditors' report should be read before anything else in the accounts and needs to be kept at the back of the reader's mind throughout.

To begin at the beginning, Brayhead is an industrial holding company operating in computer peripheral and sound reproduction equipment; engineering and equipment rental. Turnover and results by divisions are shown in the profit and loss account.

Remfield Trust owned or controlled at April 30th, 1970, 9,285,456 Brayhead shares, or 41·8 per cent of the capital, and the directors' report records that a further 500 shares had been held on May 1st, 1969. Mr A. Bond, Mr A. J. Richards and Mr R. K. Richards – all directors of Brayhead – are directors of and shareholders in Remfield.

Under 'Directors' interests' in the directors' report it is stated that at December 31st, 1969, Brayhead and some subsidiaries had deposits of £198,595 with Guarantee Trust of Jersey and that these deposits were later assigned at par to Remfield and are reflected in the amount of £112,325 due from that company at April 30th, 1970.

An amount of £10,000 not included in those arrangements fell to be dealt with in the terms of a scheme whereby depositors with Guarantee of Jersey would be unable to redeem deposits before the end of 1980. The deposit has since been assigned to third parties for £6,000 and the £4,000 loss has been provided in the accounts.

Out of America

During the year the company sold to Remfield Trust a freehold property at book value £101,640. Mr A. J. Richards and Mr R. K. Richards are directors and shareholders of Autobar Ltd which, with its associated companies, is the dominant supplier of goods and services to the equipment rental division. In the period under review the value of those supplies was £315,340 and a contract existed at April 30th, 1970, for further equipment worth £628,650 to be supplied over a period of two years.

During the year Mr A. Bond maintained his interest in the company's shares at 74,750 as did Mr F. J. J. Pusey, another director, at 123,000. Mr A. J. Richards reduced his interest from 185,060 shares to 107,221 and Mr R. K. Richards reduced his from 65,057 to 57,557.

The directors' report also records a number of special transactions during the year. In the period under review the company acquired the minority (49 per cent) interest of Mastertape (Magnesia) Ltd in exchange for 640,000 shares in Memory Magnetics International Inc. of USA. This, the chairman comments, marks the end of the company's 'excursion in America'. A company – Brayhead (Properties) Ltd – was formed to hold certain property investments and another – Lear Jet Stereo 8 (UK) Ltd – was formed to exploit manufacturing and selling rights held under licence from Lear Jet Inc. of USA.

Special points under 'Fixed assets' are the receipt of £280,810 on the sale, under a leaseback arrangement, of the works built for Mastertape (Magnetic) Ltd, the expenditure of some £175,000 on plant and equipment for those works, the receipt of £269,240 on the sale of investment properties and the acquisition of freehold property for £391,811.

Property deals

Under 'Property' in the report it is stated that the freehold properties not occupied by group companies (£947,054) were mainly acquired with vacant possession in settlement of certain debts or under arrangements whereby the group was released from guarantees given in respect of debts of former subsidiaries.

A further property (£139,000) is to be similarly acquired in 1970–71 after which no further such acquisitions will be made. Subject to expenditure of some £50,000 on building works and assuming no sales of property meanwhile, the total rent roll, currently £37,000, is expected to reach £70,000 in due course. The purchase consideration for these properties was based on professional valuations made during 1967 and 1968 and may not be realizable in full under current market conditions.

Of the value of investments in subsidiaries and of premium on shares in subsidiaries, the report states that this is largely dependent on future profitability of the subsidiaries and the directors do not intend to revalue the investments to reflect short-term changes in profit. In their opinion the long-term value of the investment is not less than the amounts at which they appear in the accounts.

The loss on computer peripheral and sound reproduction equipment reflects a temporary down-turn in the trading results of two subsidiaries and the inability of the Mastertape (Magnetic) company to establish a satisfactory activity level in its new works. The company is still unprofitable but is expected to contribute to group profit throughout 1971–72 and subsequently.

Results in the engineering division reflect the division's association with the motor industry, and results under the heading of 'Equipment rental' reflect higher depreciation charges arising from a change of depreciation policy and generally increased administration and servicing costs. It was the company's policy to depreciate equipment over seven years although hire contracts are usually for five years. The policy was in line with an arrangement whereby equipment can be part-exchanged after five years at a sum approximately equivalent to the then book value.

No dividend

There will be no improvement in group profits for the current year and when the accounts were issued, after a delay of some six weeks due to the postal strike, a half-year profits statement was included showing pre-tax profits at only £26,000 for the six months to October 31st against a corresponding £161,000. Shareholders are told that no dividend will be paid for 1970–71.

BRAYHEAD LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT

YEAR ENDED 30th APRIL 1970

	Notes	1970 (12 months) £	1970 (12 months) £	1969 (16 months) £	1969 (16 months) £
Turnover	1				
Engineering			2,362,452		*3,186,278*
Computer peripheral and sound reproduction			894,518		*1,412,027*
Equipment rental			356,086		*520,181*
			£3,613,056		*£5,118,486*
Trading profit before taxation	2				
Engineering			220,723		*296,866*
Computer peripheral and sound reproduction			(42,296)		*132,228*
Equipment rental			57,613		*164,226*
Other			(44,933)		*(46,584)*
			191,107		*546,736*
Less: Taxation	7		115,689		*240,965*
Trading profit after taxation			75,418		*305,771*
Less: Minority interests	8		14,967		*78,437*
Trading profit attributable to the Shareholders of Brayhead Limited			60,451		*227,334*
Less: Exceptional items	9	23,500		*381,824*	
Deduct: Amount transferred from capital reserve (note 13, page [561])		23,500	—	*381,824*	—
Add: Prior year adjustments	10	13,309			
Deduct: Minority interests		1,577			
			11,732		—
			72,183		*227,334*
Less: Dividend			—		*111,037*
Retained surplus	11		£72,183		*£116,297*

Basis of accounting

In arriving at the trading profit before taxation shown above:

(1) Research and development expenditure totalling £156,564 (*1969: £110,820*) incurred during the year, has not been charged to revenue, and falls to be written off against profits of future years (note 5, page [560]).

(2) Interest of £20,042 (*1969: £53,888*) has been capitalised during development on properties which have subsequently been sold.

(3) The accounts of British Tools & Pressings Limited and its subsidiaries have been made up to 2nd May 1970 and are consolidated on that basis.

(4) No account has been taken of the results of a subsidiary sold since 30th April 1970 (note 2, page [560]).

Auditors' report—page [561].

Notes on consolidated profit and loss account

	1970 (12 months) £	1969 (16 months) £
1. Turnover		
Invoiced value of goods and services outside the group		
2. Trading profit before taxation		
after charging and crediting the following items:—		
Charges		
Auditors' remuneration:		
Subsidiaries	9,255	*8,795*
Parent (including previous year £663)	3,163	*1,750*
Depreciation (note 4)	300,329	*366,953*
Interest:		
Bank overdrafts and loans repayable within 5 years	93,977	*178,025*
Other loans	44,336	*82,015*
Emoluments of directors of Brayhead Limited for management (note 6)	32,800	*44,555*
Credits		
Investment grants (note 5)	15,564	*29,114*
Amount receivable under insurance claim	—	*29,753*
Rents from property	11,806	*8,639*
Interest received	16,099	*74,187*
Management charge and interest received from a subsidiary not consolidated	22,468	—

3. Divisions
"Other" includes the activities of certain minor subsidiaries and the expenses (mainly interest) of the parent in excess of the amount recovered from subsidiaries as management charges.

4. Depreciation
Depreciation is calculated to write off the assets during their expected normal lives by equal annual instalments at rates ranging from 2% to 20% depending upon the type of asset. Certain equipment (net book value at 30/4/70 £450,000) leased to third parties is depreciated over 7 years although the initial hire is for a shorter period, mainly 5 years. There is an arrangement with Autobar Limited, whereby such equipment may be part-exchanged after 5 years at a sum approximately equal to the then book value.
Depreciation has not been charged on the group's investment properties as, in the directors' opinion, the larger part of the value is represented by freehold land.

Auditors' report—page [561].

5. Investment grants
Investment grants are released to the profit and loss account on the basis of 1/6th in the year that the relevant expenditure is incurred, 1/3rd in each of the following two years and the remaining 1/6th in the final year.

6. Emoluments of directors of Brayhead Limited
Emoluments (excluding pension contributions) were paid to directors as follows:—

	1970 (12 months) £	1969 (16 months) £
Chairman	8,400	*11,200*
Highest paid director	10,050	*13,400*
	No.	No.
Not more than £2,500	–	*1*
£2,501 to £5,000	–	*–*
£5,001 to £7,500	1	*1*
£7,501 to £10,000	2	*–*
£10,001 to £12,500	1	*2*
£12,501 to £15,000	–	*1*

7. United Kingdom Taxation
Based on trading profits of the period

	1970 (12 months) £	1969 (16 months) £
Corporation tax at 42½%	96,889	*166,555*
Tax equalisation	18,800	*74,410*
	£115,689	*£240,965*

The charge to taxation is high in relation to the trading profits because losses in a subsidiary are not eligible to relieve taxation on profits of other group companies.

8. Minority interests

	1970 (12 months) £	1969 (16 months) £
British Tools & Pressings Limited	37%	*37%*
Mastertape (Magnetic) Limited (for the period to 15th April 1970)	49%	*49%*

9. Exceptional items

	1970 (12 months) £	1969 (16 months) £
Losses in respect of former subsidiaries	19,500	*341,582*
Provision for loss on:		
sale of property	—	*40,242*
realisation of deposit	4,000	—
	£23,500	*£381,824*

10. Prior year adjustments

	1970 (12 months) £	1969 (16 months) £
Taxation provisions no longer required	76,766	—
Amount thereof applied against development expenditure (note 5, page [560]).	(63,457)	—
	£13,309	—

11. Retained surplus

	1970 (12 months) £	1969 (16 months) £
Dealt with in the accounts of:		
Brayhead Limited	53,417	*25,603*
Subsidiary companies	18,766	*90,694*
	£72,183	*£116,297*

BRAYHEAD LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET
30th APRIL 1970

	Notes (pages [560 to 561])	1970 £	1970 £	1969 £	1969 £
NET ASSETS EMPLOYED					
Fixed assets (page [561])			3,266,294		3,241,622
Subsidiary not consolidated	2		65,307		—
Trade investments	3		112,922		648,263
Deferred debts	4		162,769		322,473
Development expenditure	5		203,927		110,820
Current assets					
Stock	6	425,368		411,665	
Debtors		923,366		945,978	
Taxation recoverable		76,770		—	
Net proceeds of flotation of subsidiary company		—		577,503	
Bank and cash balances		34,605	1,460,109	442,930	2,378,076
			5,271,328		6,701,254
Less: **Current liabilities**					
Creditors and provisions	7	973,916		1,205,989	
Bank overdrafts (secured: 1969 £738,996)		618,136		804,962	
Taxation	8	223,239		245,651	
Dividend (gross)			1,815,291	111,037	2,367,639
			3,456,037		4,333,615
Less: Short term loans	9	260,495		530,466	
Loans secured by mortgage	10	516,079	776,574	618,549	1,149,015
			2,679,463		3,184,600
Premium on shares in subsidiaries	11		1,020,224		567,082
			£3,699,687		£3,751,682
REPRESENTING					
Issued share capital of Brayhead Limited	12		2,220,739		2,220,739
Share Premium			693,086		693,086
Reserves	13		156,868		111,981
			3,070,693		3,025,806
Investment Grants			40,754		53,450
Tax equalisation	14		238,920		237,815
Minority interests			349,320		434,611
			£3,699,687		£3,751,682

A. J. RICHARDS } Directors
A. BOND

To be read with the notes on pages [560 to 561].
Auditors' report—page [561].

BRAYHEAD LIMITED

BALANCE SHEET
30th APRIL 1970

	Notes (Pages [560 to 561])	1970 £	1970 £	1969 £	1969 £
NET ASSETS EMPLOYED					
Fixed assets (page [561])			535,061		744,241
Subsidiary companies	1		2,801,850		1,925,140
Trade investments	3		112,922		648,263
Deferred debts	4		148,689		322,473
Current Assets					
Debtors		31,874		32,060	
Bank balance		1,010	32,884	110,000	142,060
			3,631,406		3,812,177
Less: **Current Liabilities**					
Creditors and provisions	7	241,816		265,557	
Bank overdrafts (secured: 1969 £395,030)		423,800		402,070	
Dividend (gross)		—	665,616	111,037	778,664
			2,965,790		3,033,513
Less: Loan secured by mortgage			—		101,640
			£2,965,790		£2,931,873
REPRESENTING					
Share capital: shares of 2/- (10p) each					
Authorised			£2,500,000		£2,500,000
Issued fully paid	12		2,220,739		2,220,739
Share premium			693,086		693,086
Reserves	13		51,965		18,048
			£2,965,790		£2,931,873

A. J. RICHARDS } Directors
A. BOND

To be read with the notes on pages [560 to 561].
Auditors' report—page [561].

BRAYHEAD LIMITED AND SUBSIDIARY COMPANIES

Notes on balance sheets

	Group 30/4/70 £	Group 30/4/69 £	Parent 30/4/70 £	Parent 30/4/69 £
1. Subsidiary companies				
Shares at directors' valuation in 1966 or at cost			1,759,866	1,224,483
Amounts owing therefrom			986,051	579,662
Dividends receivable			60,750	143,750
			2,806,667	1,947,895
Amounts owing thereto			4,817	22,755
			£2,801,850	£1,925,140

(a) The amount of £1,759,866 shown above includes £821,321 representing the total holding of 1,900,000 shares of 5s. each in British Tools & Pressings Limited, equivalent to 8s. 8d. per share. The middle market price of these shares on 30th April 1970 was 4s. 9d. per share.
(b) The company has fifteen subsidiaries all of which are incorporated in England. Details are given on page 16 [not reproduced].

2. Subsidiary not consolidated
The amount of £65,307 relates to Kenure Holt & Co. Limited, a subsidiary of British Tools & Pressings Limited, which has been sold under an agreement completed subsequent to 30th April 1970, and comprises:
(a) current account balance £35,307. This amount has subsequently been partly secured and is expected to be received within 2 years.
(b) book value of shares £30,000. The consideration for these, which is payable within 5 years, is dependent on the net assets shown in the audited accounts of Kenure Holt & Co. Limited at 30/4/70. These accounts are not yet available and any profit or loss on sale, which is not expected to be material, will be dealt with in the 1971 accounts.
The assets and liabilities of this subsidiary have not been consolidated as in the opinion of the directors it would be impracticable to do so.

	Group 30/4/70 £	Group 30/4/69 £	Parent 30/4/70 £	Parent 30/4/69 £
3. Trade Investments (Unquoted)				
(a) 160,000 shares (*1969 750,000 shares*) of $0.05 each of class "A" common stock in Memory Magnetics International Inc. of U.S.A. at directors' valuation of $1.7 (*1969* $2) per share *	112,922	627,353	112,922	627,353
(b) 50,000 shares of $1 each in Computer Disc Mastertape Inc. of U.S.A., disposed of during the year	—	20,910	—	20,910
	£112,922	£648,263	£112,922	£648,263

*No accounts for this company have been received since those for the period to 30th November 1968, and no dividends have been received. The shares held are subject to certain restrictions on marketability, but shares, otherwise similar, were last quoted on the Over the Counter market in the U.S.A. at $1.5 (bid) and $2.25 (offer) per share. On the basis of the available information, the directors are of the opinion that the present value of this investment is not materially different from the amount shown in these accounts.

	Group 30/4/70 £	Group 30/4/69 £	Parent 30/4/70 £	Parent 30/4/69 £
4. Deferred debts				
Due from purchaser of a former subsidiary	20,000	—	20,000	—
Naibland Limited and its subsidiaries	16,364	322,473	16,364	322,473
Remfield Trust Limited	112,325	—	112,325	—
Bank deposit	14,080	—	—	—
	£162,769	£322,473	£148,689	£322,473

The amount due from Remfield Trust Limited, which is unsecured, is expected to be received over the next 3 years.

The bank deposit may not be withdrawn before 31st December 1981.

5. Development expenditure
The amount of £203,927 represents expenditure (after deduction of £63,457 transferred from taxation recoverable, note 10, page [558]), incurred by a subsidiary company on research and development of certain products some of which are not fully in commercial production. Further expenditure on those products is expected to be £50,000 during 1970/71. The amount will be charged to revenue in relation to future sales of goods or know-how. (Note 1, page [alongside]).

6. Stock
Stock and work in progress has been valued consistently with last year at the lower of cost (inclusive of appropriate manufacturing overheads) and net realisable value.

	Group 30/4/70 £	Group 30/4/69 £	Parent 30/4/70 £	Parent 30/4/69 £
7. Creditors and provisions				
Creditors and accrued expenses	845,709	777,189	130,148	66,357
Hire purchase balances	19,014	35,055	2,475	—
Bills payable	—	194,545	—	—
Provisions for liabilities under guarantees (note 16 (b))	109,193	199,200	109,193	199,200
	£973,916	£1,205,989	£241,816	£265,557
8. Taxation				
Currently due	116,039	160,446		
Due May 1971	107,200	85,205		
	£223,239	£245,651		
9. Short term loans				
Block discounting of rental agreements	209,495	293,045		
Secured on freehold property	40,000	232,561		
Unsecured	11,000	4,860		
	£260,495	£530,466		

10. Loans secured by mortgage	Interest p.a.	Group 30/4/70 £	Group 30/4/69 £	Parent 30/4/70 £	Parent 30/4/69 £
Repayable over 15 years commencing in April 1971	7%	150,000	150,000	—	—
Repayable over 10 years from March 1967	$7\frac{10}{11}$%	8,279	9,109	—	—
Debentures repayable in 1978 (note 17)	$8\frac{19}{32}$%	357,800	357,800	—	—
Repaid during the year	2%	—	101,640	—	101,640
		£516,079	£618,549	—	£101,640

11. Premium on shares in subsidiaries
The increase during the year arises in the main from the acquisition of the minority interest (49%) in Mastertape (Magnetic) Limited, on 15th April 1970.

12. Share capital
The holders of debentures issued by a subsidiary company (see note 17) have the right to convert into ordinary shares of Brayhead Limited on the following conditions:
(a) at a price, not below par, of 20% below quoted price
(b) up to 50% of holdings in May or November 1970
(c) as to the remainder in May or November 1973.
Debentures to a value of $6,500 have been exchanged for 27,184 ordinary shares pursuant to options exercised in May and November 1970.

BRAYHEAD LIMITED AND SUBSIDIARY COMPANIES

Notes on balance sheets – continued

13. Reserves

		Group		Parent
		£		£
Retained profits (deficit) at 1st May 1969		52,443		(56,870)
Deduct: amount attributable to a subsidiary not consolidated (note 2)		3,796		—
		48,647		(56,870)
Retained surplus of the year		72,183		53,417
Capital reserve at 1st May 1969	59,538		74,918	
Deduct: amount transferred to Profit & Loss account	23,500		19,500	
		36,038		55,418
At 1st May 1970		£156,868		£51,965

14. Tax equalisation
The amount of £238,920 represents deferred taxation calculated at 42½% on the amount by which accumulated depreciation for taxation purposes exceeds the corresponding provision made in these accounts.

	30/4/70 £	*30/4/69 £*	30/4/70 £	*30/4/69 £*
15. Capital Commitments				
Not provided in accounts:				
Authorised by directors	71,000	—	—	—
Contracted	809,000	*530,000*	—	—
	£880,000	*£530,000*	£ —	*£ —*
16. Contingent liabilities				
These relate to guarantees given in respect of:				
(a) Subsidiary companies				
Rental agreements and hire purchase transactions			240,000	*330,000*
8½% Debenture 1978 U.S. $855,500 (note 17)			357,800	*357,800*
Bank overdrafts and other liabilities			50,000	*425,000*
			£647,800	*£1,112,800*
(b) Former subsidiary companies				
Banking accounts and other liabilities, in excess of the amounts provided in these accounts	£250,000	*£200,000*	£235,000	*£185,000*

In the opinion of the directors no further losses are expected to arise in respect of the remaining guarantees of £250,000.

(c) The company is disputing a claim from a third party for an amount of £20,000 for which no provision has been made in these accounts.

17. Debentures 1978
The amount of £357,800 relates to 8½% debentures to a value of U.S. $855,500 issued by a subsidiary.
Capital and interest is payable at the holder's option in German, Swiss or U.S. currency. The exchange rate adopted in the balance sheet (£357,800) is 2.391 U.S. $ to the £, being the rate ruling when the issue was made. See note 12 for certain option rights.

Auditors' report—page [alongside].

BRAYHEAD LIMITED

FIXED ASSETS

GROUP

	Freehold property: Occupied by group companies	Freehold property: Investment properties	Leasehold property	Plant and equipment	Total
Cost or valuation	£	£	£	£	£
At 1st May 1969	868,519	824,483	68,772	2,948,795	4,710,569
Relating to subsidiary not consolidated	—	—	—	(37,601)	(37,601)
Additions	11,576	391,811	52,807	593,964	1,050,158
	880,095	1,216,294	121,579	3,505,158	5,723,126
Disposals	294,054	269,240	—	277,592	840,886
At 30th April 1970	586,041	947,054	121,579	3,227,566	4,882,240
Accumulated depreciation	21,243	—	21,325	1,573,378	1,615,946
Net book value	£564,793	£947,054	£100,254	£1,654,188	£3,266,294
Valuations incorporated above:					
1964	—	£54,100			
1965	£174,350	—			

Leasehold property at 30th April 1970 comprises long leases (cost £45,972: net book value £45,972) and short leases (cost £75,607: net book value £54,282).

Plant and equipment includes vending machines on hire to third parties (cost £1,519,715: net book value £920,269).

The treatment of investment grants is referred to in note 5 on page [558].

PARENT

Cost or valuation			
At 1st May 1969	772,491	3,287	775,778
Additions	28,050	4,700	32,750
	800,541	7,987	808,528
Disposals	269,240	3,287	272,527
At 30th April 1970	531,301	4,700	536,001
Accumulated depreciation	—	940	940
Net book value	£531,301	£3,760	£535,061

Auditors' report—page [below].

AUDITORS' REPORT

To the members of Brayhead Limited

We report on the accounts set out on pages [558 to 561], and the table on page 16 [not reproduced].

As indicated in the directors' report on page 5 [not reproduced] under the heading "Computer peripheral and sound reproduction equipment", negotiations are in progress for the sale of know-how for an amount in excess of the development expenditure carried forward in these accounts of £203,927. In our opinion, the value of this development expenditure at the present time is dependent on the outcome of these negotiations.

In our opinion, the value of the investment in subsidiary companies of £2,801,850 shown in the accounts of the company on page [559], and the related item "Premium on shares in subsidiaries" of £1,020,224 shown in the consolidated balance sheet on page [559], both of which are referred to in the directors' report on page 4 [not reproduced] under the heading of "State of affairs", are not justified at the present time as the group's operations do not yield a satisfactory return on capital employed.

With these reservations, in our opinion, based on our examination and the reports of the auditors of certain subsidiaries not audited by us, the above accounts, as amplified by note 3 on page [560] and the paragraph in the directors' report on page 5 [not reproduced] under the heading "Property", together give a true and fair view of the state of affairs at 30th April 1970 and of the profit for the year ended on that date and comply with the Companies Acts 1948 and 1967.

Cooper Brothers & Co.
Chartered Accountants.

London.
12th February 1971.

CITY NOTES

THERE seems to have developed in the stock-market a situation where the pitch of prices itself rather than the balance of facts and factors determines the weight of selling or buying. The margin between prices being considered too high and being considered too low is narrow.

At the beginning of last week prices were considered too low and in the next four days there was a rise of 20 points in the *Financial Times* 30 shares index. At the beginning of this week, however, there was an impression abroad that prices were already high enough because buying which had appeared fairly aggressive the previous week was on a very much reduced scale.

Perhaps it is coincidence that gives the impression of a market moving sharply within comparatively narrow limits. It is coincidence that fills one week with bad industrial news and the next with comparatively good. Poor company results seem to come in batches and the cumulative, depressive effect on stock-market sentiment is considerable. The reverse is the case when a few good results come along.

The effect of this news bunching is inevitably more marked at a time when the stock-market is in the position of reflecting hopes of eventual recovery in the future but is still having to take account of the effects of an immediately depressed past.

* * * *

THE Vehicle and General affair has predictably brought out the worst in those who wish to make the most kudos from being a watchdog or bloodhound, or a cross-breed of both. But there are two particular points that come up for debate under such conditions – the role of the Government department involved and the role of the financial press.

The positions of both are difficult. If a company is shaky but capable of being strengthened and put right, there is no surer way of making such a salvage operation impossible than to reveal that a shaky position is being investigated. Further than that, there is the law of libel which makes revelation dangerous to the press, if not impossible.

But that aspect apart, the decision of whether or not to draw attention to a possibly serious financial position is always difficult. There have been cases in the not very distant past when revelation has quite clearly brought on disaster.

Truth is an extremely precious commodity. It can be harmful, it can be libellous, it can be damaging, dangerous, enlightening, and enobling. It has to be treated delicately, and, like a drug, taken in small doses.

The trouble with truth is that there are so many sides to it. The truth, for example, that needs to be known is not why V and G failed or when, precisely, official moves were made, but why the rest of the insurance industry allowed V and G to fail.

* * * *

THE Chancellor of the Exchequer has been at some pains to point out that his Budget statement, in which he spoke of a 2½ per cent increase in bank lending in a quarter, was not in the nature of a cumulative forecast. Probably prompted by the rash of new lending plans announced by the banks, the Chancellor pointed out that it was wrong to multiply 2½ by 4 and arrive at a 10 per cent rise in bank lending ceilings in a year. The 2½ per cent was a short-term affair and there is still a need to keep credit and money supply on a tight rein, even though there may be a somewhat greater degree of flexibility in the use of the rein. Clearly neither the Treasury nor the Bank of England is prepared to yield control over the level and character of bank lending and it seems, to many people, to be equally clear that the Crowther Report on consumer credit went much too far on relaxation of control for the authorities to accept that the Crowther road is in fact the right one to take.

RATES AND PRICES

Closing prices, Tuesday, April 27th, 1971

Tax Reserve Certificates: (26.4.71) Companies 4½%; 2½% surrendered for cash; Personal 4%

Bank Rate

Nov. 9, 1967	6½%	Feb. 27, 1969	8%
Nov. 18, 1967	8%	Mar. 5, 1970	7½%
Mar. 21, 1968	7½%	April 15, 1970	7%
Sept. 19, 1968	7%	April 1, 1971	6%

Finance House Base Rate – April 1st, 1971. 8%

Treasury Bills

Feb. 19	£6·7299%	Mar. 26	£6·6242%
Feb. 26	£6·7157%	April 2	£5·8293%
Mar. 5	£6·6940%	April 8	£5·7849%
Mar. 12	£6·6659%	April 16	£5·7561%
Mar. 19	£6·6416%	April 23	£5·7081%

Money Rates

Day to day	4⅜–6%	• *Bank Bills*	
7 days	4¼–6%	2 months	7–7⅛%
Fine Trade Bills		3 months	7–7⅛%
3 months	7½–8%	4 months	7–7⅛%
4 months	7½–8%	6 months	7 1/16–7 3/16%
6 months	7¾–8%		

Foreign Exchanges

New York	2·4191	Frankfurt	8·7930
Montreal	2·4415	Milan	1505·45
Amsterdam	8·7105	Oslo	17·2430
Brussels	120·08	Paris	13·3405
Copenhagen	18·1265	Zürich	10·3985

Gilt-edged

Consols 4%	44	Funding 6% 1993	71¼
Consols 2½%	27⅝	Funding 6½% 85–87	80½
Conversion 3½%	38¼	Savings 3% 65–75	87 7/16
Conversion 5% 1971	99 27/32	Treasury 6½% 1976	97
Conversion 5¼% 1974	96¼	Treasury 3½% 77–80	75⅝
Conversion 6% 1972	99 23/32	Treasury 3½% 79–81	73
Funding 3½% 99–04	45¼	Treasury 5% 86–89	65¾
Funding 4% 60–90	97⅜	Treasury 5½% 08–12	62⅜
Funding 5¼% 78–80	84¾	Treasury 2½%	27¼
Funding 5½% 82–84	80¼	Victory 4%	95⅞
Funding 5¾% 87–91	70⅞	War Loan 3½%	37¾xd

The Association of Certified and Corporate Accountants

President's Address

at the Sixty-sixth Annual General Meeting

IN the course of his presidential address at the sixty-sixth annual general meeting of The Association of Certified and Corporate Accountants held in London on Tuesday of this week, Mr E. A. Lediard Smith, F.A.C.C.A., said:

May I begin by referring briefly to such losses in the past and present membership of the Council as have taken place during the year. So far as concerns former members of Council, no fewer than three past presidents of the Association died during the course of last year. They were the Lord Latham, Mr C. V. Jarvis and Mr F. G. Wiseman. Lord Latham died on March 31st last and I was able to make reference to the fact during the course of my presidential address last year and also to include reference to the memorial meeting for him which was held in Church House, Westminster, on May 14th. In addition, Mr C. V. Jarvis died on September 28th last and Mr F. G. Wiseman on December 19th. We deeply regret their passing and I ask you to rise and observe a short period of silence in tribute to their memory and in recognition of their long service to the Association.

I have also to refer to Mr D. R. Dawes, Mr C. M. Jennings, and Mr W. G. H. Clark, M.P., who resigned from the Council towards the end of last year and at the same time to Messrs W. Jackson, C. A. Newport, T. R. Powell, and E. Spencer who retire automatically at this meeting and who have indicated to us that they do not propose to offer themselves for re-election to the Council. Since these resignations and retirements are so numerous, it is difficult in the time at our disposal to deal with them separately and I must therefore content myself by placing on record our appreciation of the services which each of them rendered to the Association in his own particular way and express to them on your behalf our grateful appreciation of those services. (*Applause.*)

Finance

You will observe that the accounts for 1970 disclose a surplus before appropriations which is not insignificant. While this is satisfactory, I am sure that we are bound to consider it – not in relation to the year that has passed – but rather in relation to what lies ahead. In the light of the developments that are envisaged in 'Future Plans', and which it is our firm resolve to implement, this year's surplus may not take us far. Nevertheless, we have no proposals at this meeting for any increase of subscriptions, though I feel bound to advise you – if it be necessary – that next year the position may well be otherwise. It is, indeed, hardly to be expected that at that time we shall not be asking for increased subscriptions to finance the developments we have in mind.

Having said that, I should like to add that the needs of the future will not entice us into any rash departure from the policy of careful husbandry of the Association's finances that we have habitually exercised in the past. I will say little of the increases in the costs of administration that are bound to face us in the coming year. I say little about them because they are not subject to our control in any way whatever. Nevertheless, you are entitled to expect that we should apply the Association's resources in the most advantageous way possible and I assure you that we shall continue to seek to do this.

Membership

Nearly 800 new members joined the Association last year in comparison with some 500 in the previous year. This is a matter for satisfaction, but not for jubilation, because the larger the Association becomes – and it now consists of more than 13,000 members – the higher must be the intake to maintain a normally healthy rate of progression.

This in turn depends on the level of successes at the examinations and I am happy to be able to tell you that the pass percentage is undoubtedly improving. I hope I need not say that this is in no way due to any lowering of standards. You will be aware that in previous years we have gone to a good deal of trouble to obtain statistical returns from students as to their background education, method of study and examination history in an attempt to explain pass percentages which were on the whole too low and which also fluctuated in a manner that we were unable to explain. The statistics have so far not provided any very clear answers to our questions, but we shall continue to compile them and to examine them with care. In addition to this, however, we have, during the year just passed, devoted a good deal of attention to the form and content of the examination papers themselves and we believe that we have been able to produce papers that are fairer to students and that this has in turn enabled them to do greater justice to themselves. We are, of course, currently engaged on a revision of the examination syllabus in which the main departure from the past will be the provision of separate sets of papers for those training within the profession, on the one hand, and those training in industry and commerce, on the other.

What we envisage at the moment is that the earlier sections of the examination will be common to all can-

didates, but that in the last two sections there will be alternative streams of qualification for those in practising offices and those in industry. This will permit us to give due emphasis to the differing requirements of these two main categories.

We shall also seek to evolve an arrangement of subjects and papers that will enable us to grant really worth-while exemptions to those who have already covered the necessary ground in other approved studies, such as business school graduates, university graduates with appropriate degrees, as well as members of other suitable professional bodies.

At the same time we have to bear in mind that teaching facilities are not unlimited. Quite otherwise, in fact, and for this reason we have to try to ensure that our requirements do not differ too widely from those of the other bodies within the profession so that the best possible use may be made of educational resources.

Taken together these factors pose a considerable problem and call for a substantial measure of co-operation between the constituent bodies of the profession.

Research

We have always received high commendation on the quality of our technical publications. For that we are indebted to the members of our technical committees and I am happy to acknowledge that debt and to thank them for their great help. We are about to embark on a major development of our technical activities under the able leadership of Mr A. W. Nelson, Chairman of the main Technical and Research Committee, but to do this successfully we need the assistance of many more suitably qualified members of the Association. May I, therefore, reinforce the appeal contained in the report of the Council and ask for further volunteers. If you have special experience or expertise in any part of the growing field that accountants are now expected to cover, please tell us about it.

Budget

I now turn to the Budget and I must say at once that to be able to refer to this in terms of commendation is a pleasure which in recent years has been denied both to me and to my predecessors.

We have become all too accustomed to a Budget speech which opens with gloomy reflections on our economic situation, continues by blaming the country at large because 'we are spending more than we are earning' – a proposition of doubtful validity – and goes on to propose certain increases in taxation and restrictions of various kinds which are confidently predicted to correct the ills thus diagnosed, but which, strangely enough, never appear to succeed. This year we have at last been spared this ritual. Instead the problems facing the country seem to be seen for what they are – inflation, poor labour relations, and, as a result, damage to our trade. Moreover, there seems to be a new recognition of the undoubted fact that being beastly to entrepreneurs is unlikely to set these matters right.

Turning to the main measures announced, it is clear that the new tax treatment of married couples removing the premium upon living in sin will be widely welcomed except by those who feel that permissiveness should be forced upon us. The increase in earned income relief and the removal of the upper limit are also both logical and long overdue. The reduction in the standard rate is now old hat, but the further reduction in the rate of corporation tax will go some way towards relieving the liquidity problems of industry and is a very useful step.

The proposal to base a small capital gains tax exemption on turnover will be welcome as eliminating many wasteful computations, and the decision to combine the short- and long-term capital gains tax is an excellent first step in the reform of this tax. Welcome, too, is the elimination of this charge on death.

Most important of all, however, are the projected reforms for next year. The elimination of income tax and surtax as separate taxes and the substitution of a single tax at graduated rates is an idea which has been attributed to a number of different sources. May I, therefore, venture to set the record right in this respect. It was your own Association which first proposed this measure as one of a group of radical reforms suggested to the then Chancellor, Mr Selwyn Lloyd, prior to his Budget in 1962. That this suggestion, subsequently repeated at least twice, has at last been acted on is something that we heartily welcome. I may, perhaps, be permitted to add for the information of Mr Barber that the same document contained a number of other equally sensible proposals. The Association freely offers them all, and is, indeed, not without other ideas for reform which we are sure would prove equally beneficial both to the taxation system and to the country.

The future of the Association

Since we last met, the voting on the integration scheme has taken place with an outcome of which you are all only too well aware. I do not propose to spend time in conducting a post-mortem on the matter except to say that it is a matter of profound regret to everybody concerned that after so much care, trouble, and time had been expended in producing a viable and reasonable scheme, we were faced with the realization that it had been largely wasted. It is profitless to speculate on what might have been and our main concern must, I suggest, be – to the exclusion of all else – what this Association is now going to do. The Council's plans have already been communicated to you and we have held a meeting of district society representatives at which those plans were, with very little criticism, approved. It is our intention now to implement them, subject to financial viability, by successive stages which will enable us to embark on a fuller programme of activities with as little delay as possible. It may well be that in some respects the plans will require modification, but the main structure outlined in 'Future Plans' is our objective and we have already embarked on those dispositions at headquarters which will enable us to implement them. Later in this meeting we shall ask you to approve certain changes in the articles which are directed to the same end. Other such changes will be proposed in due course when we have had an opportunity of considering more fully the views expressed at the meeting of district society representatives and by individual members.

Finally, in relation to our future, it is our intention – subject to your approval – to submit a petition to Her Majesty the Queen in Council praying for the grant of a Royal Charter of incorporation. We have a long and honourable history as a professional body and we believe that these circumstances justify such a petition. I do not doubt that you will approve our intentions and in that event we shall summon an extraordinary general meeting later in the year at which we shall ask you to consider and approve the draft

documents which we shall need to submit to the Privy Council.

Acknowledgements

I am rapidly drawing to the conclusion of my second term of office as President of the Association following two years as Vice-President. I would be less than honest if I did not admit to you that it is something from which I have derived enormous satisfaction and much real pleasure. It has been likewise a source of great pride to me to have been asked to serve in this capacity. Having said this I am bound to confess that to do so I have had to rely heavily on the support and co-operation of others and I am glad of the opportunity to express my thanks to my Vice-President, Mr Robert Crout, as well as to the past presidents of the Association, who have been readily at my disposal whenever increasing official engagements clashed or overlapped.

Nor can I omit reference to my partners, without whose encouragement, support, and exertions it would have been quite impossible for me to have accepted office at all.

And finally I would like to acknowledge with sincere gratitude all the help and support that I have received from our permanent secretariat and staff at headquarters. This often goes far beyond the call of duty and, in common with all my predecessors, I would like them to know that their services are truly appreciated.

ELECTION OF PRESIDENT

At a subsequent meeting of the Council, Mr Robert P. Crout, F.A.C.C.A., was elected President and Mr A. W. Nelson, F.A.C.C.A., was elected Vice-President (as announced in 'Current Affairs' elsewhere in this issue).

Letters

The Association's Future Plans

SIR, – With reference to Mr J. Murphy's letter in your issue of April 22nd, he appears to be greatly confused over Mr Mitchell's extremely praiseworthy resolution.

Firstly, he says that 'it is anything but clear why membership of the Council should be confined to members who are themselves in practice'. I agree wholeheartedly with these sentiments, but when and by whom has it ever been suggested that membership of the Council should be so confined? It has not occurred during the time that I have been a member of the Association.

However, leaving that problem alone, it does begin to appear that Mr Murphy is thinking along the same lines as Mr Mitchell until we read that 'If Mr Mitchell had suggested amending article 52 to read "Any member shall be eligible for election to the Council", I would have supported him'. When one takes the trouble to read the resolution, one sees that the first sentence is as follows: 'Any member shall be eligible for election as a member of the Council'! I hope that Mr Murphy was not too late to alter his proxy form having realized that Mr Mitchell did, in fact, deserve his support.

On one point, however, I am in agreement with Mr Murphy but, I suspect, for a different reason. He implies that an argument about the number of practising and non-practising members on the Council might leave the Association stranded, not knowing where its future lies, I have similar feelings, and I hope that Mr Mitchell's resolution, whatever its fate – which will have been decided by the time this letter appears in print – will be a stepping-stone towards an Association made up entirely of non-practising members, the practising members being absorbed by the Institute of Chartered Accountants. Then, and only then, will the Association be able fully to look after the interests of those who at present form 80 per cent of its membership – accountants in commerce and industry.

Yours faithfully,
COLIN J. TURNOCK,
A.A.C.C.A., A.C.B.I.

Liverpool.

New Outlook on Internal Audit

SIR, – As an ex-auditor for an international American company may I remark that English companies, apart from a very few, do not know how to use auditors.

At the risk of being considered 'reactionary', might I say they need not be 'Chartered' or 'Association'; in fact, they need not even be accountants, but as a review of profit and loss at least in accounting departments is essential, it helps if they are.

An internal auditor should conduct his audit on executive level and should report direct to the executive directors of the company concerned.

Personally I wrote an audit manual for the whole world and also a management manual for an American company – based on a departmental basis, taking the organization from top to bottom – including sitting down with each employee and finding out what they did and why they did it. My boss – vice-president in charge of foreign exchanges – told me: 'Sit down with every member of the staff and if he crosses his 't' or dots his 'i' differently, find out why.'

But an internal auditor is not a spy or a watchdog. He is there to make the organization efficient and productive.

I took in sales, advertising and insurance, fire precautions, equipment, in fact, everything I could think of.

That's what internal audit is all about. In addition, I spent a time liaising with outside auditors to see they were helped and their job made easy – it all pays off.

Yours faithfully,
H. COOPER.

Kingston-upon-Thames, Surrey.

Student Roundabout

INSTITUTE/ACASS JOINT STEERING COMMITTEE

AT A meeting held on April 22nd, the Education Committee of The Institute of Chartered Accountants in England and Wales approved the formation of an Institute/ACASS Joint Steering Committee, the members of which are as follows:

Institute Education Committee
Mr M. G. Lickiss (Chairman of the Joint Steering Committee).
Mr J. M. Tyrrell.
Mr F. J. G. Whinney

ACASS
Mr A. J. Cross.
Mr D. Gilkes
Mr S. C. Parry.

The Joint Steering Committee has been formed with the object of co-ordinating and guiding the feasibility study in regard to facilities for professional education currently being conducted through the ACASS Education Council.

A conference of the ACASS Education Council will be held on June 11th and 12th, at Chartered Accountants' Hall, for the purpose of considering a progress report on the feasibility study and to decide upon matters relating to its completion.

SHEFFIELD'S NEW CHAIRMAN

MR ALAN YOUNG, F.C.A., a partner in Cooper Brothers & Co, of Sheffield, was elected chairman of the Sheffield CASS at its recent annual meeting. Educated at Bradford Grammar School, he was articled with Armitage & Norton, of Bradford, and was admitted to membership of the Institute in 1958.

Following National Service with the Royal Artillery in which he gained a commission, he returned to Armitage & Norton and subsequently joined his present firm's Manchester office in 1962. Transferred to its Sheffield office the following year, he became a partner at the beginning of this month. Mr Young, who is 34 years of age, is married with two sons and lists as his recreations squash, golf, and music.

Other officers elected for the ensuing year are:

President: Mr K. H. Glossop, F.C.A.
Vice-Presidents: Messrs R. Firth, J.P., F.C.A., M. Sheppard, J.P., F.C.A., J. K. Patrick, F.C.A., and S. C. Hand, F.C.A.
Secretary: Mr J. Newman, 253 Dobcroft Road, Sheffield 11.
Treasurer: Mr A. Shepherd.

In addition to these officers, the following have been elected as ACASS Council members: Mr J. H. Newman and Mr N. Hanlon, with Mr A. Shepherd as reserve Council member.

LIVERPOOL'S FINANCIAL PROBLEMS

STEPS must be taken to ensure that expenditure is met from current income, states the annual report of the Liverpool CASA. In 1971 two changes will affect the finances of the Association to the extent of £1,000.

Firstly, the Institute has indicated that the Association can no longer rely on receiving a grant and, secondly, it is faced with the increase in the cost of administration and use of the Library. Although the free circulation of *The Young Accountant* has been discontinued, not entirely for financial reasons, states the report, the resulting saving will probably not even cover generally increasing costs, including the rise in the levy payable to ACASS.

The report points out that the Association has been given little notice of these changes with the result that for 1971 a deficit amounting to £1,275 is anticipated.

Various budgets are in preparation and an extraordinary general meeting is to be called with the object of putting forward resolutions seeking not only increases in future subscriptions and entrance fees, but also a special levy to meet the deficiency for the current year.

The Association's education programme fared badly during the year. Attendances at lectures were poor and in an endeavour to overcome this apathy it is planned to make the 1971–72 programme more examination-orientated.

Still on the subject of education, discussions took place with Foulks Lynch concerning the possibility of organizing regional, or inter-city, oral courses and it is hoped that one- or two-day courses will be held in Liverpool in the near future in conjunction with Foulks Lynch.

Total membership of the Association at the end of last year was 941, an increase of 36 during the year.

Compared with the educational activities, social functions were all well attended, and at sport the Association was also particularly active.

New Secretary

The new secretary of the Association is Jonathan Mounsey, a four-year articled clerk with Chalmers Impey & Co. In the words of the report he has worked extremely hard for the Association during the year in his capacity as assistant secretary, being responsible for the organization of many a successful event.

He is 22 years of age and the Association is fortunate to have found someone with plenty of drive and energy, particularly in what appears to be a difficult year ahead.

LETTER TO ROUNDABOUT

More Consultation Please!

SIR, – Having noted the recommendation of ACASS on the setting up of 'Schools of Account', and the subsequent moves to promote feasibility discussions with the various district societies, I am disappointed that greater efforts have not been made to consult the general body of articled clerks on this important topic.

The views expressed by the executive and educational committees of ACASS concerning the inadequacy of correspondence courses have rightly attracted a certain amount of contro-

versy. It is surely no coincidence that the examination honours are invariably taken by students who have relied upon such courses, a point emphasized again in the results of the November 1970 Final examination.

As an articled clerk under four years' service, I have based my studies upon the correspondence method, the amount of oral tuition received being negligible by comparison. To date I have passed the Intermediate and Final Part I, both at the first attempt. In doing so, I have seldom exceeded two hours per evening at a maximum of five days per week, still leaving me plenty of spare time for indulging in my favourite recreations.

By stating this, I do not mean to say that I disagree with the current body of proposals which, in this increasingly technological age, are positive enough in principle. What really worries me is a curiously apathetic approach to educational problems on the part of the Institute and the profession as a whole. Not only does this extend to a failure to create truly acceptable oral courses in either public or private sectors, but also to a syllabus which has remained outmoded for too long. I would be interested to hear further student views on the subject.

Yours faithfully,
E. J. KING.
Storrington, Sussex.

New Hope for Simpler Tax Structure

Institute's President at Norwich Dinner

THE sudden jump in the unemployment figures could be seen as the culmination of a long period of uncertainty and frustration, of complex and at times almost unintelligible legislation – particularly in the field of taxation – and of a mounting crescendo of industrial disputes, said Mr C. Croxton-Smith, M.A., LL.B., F.C.A., President of The Institute of Chartered Accountants in England and Wales, last week. Little wonder, therefore, that the money that was needed so desperately by industry for re-equipment, expansion, research, and new development had not been forthcoming from investors – institutional or personal.

Replying to the toast of the Institute at the annual dinner of the East Anglian Society of Chartered Accountants last Friday, the President continued:

'At last, we now have a Finance Bill which, in addition to giving some much needed relief, appears to hold out hope of a new look at the whole structure of taxation with the intention of bringing about some simplification.'

Industrial disputes

This was long overdue, he went on, but the main prerequisite to lasting industrial recovery must surely lie in the cessation of industrial disputes. These took place with such regularity that they were in danger of being accepted as a normal part of daily life.

'Our members in industry', said the President, 'and those of us in public practice who may be concerned with day-to-day work on behalf of some of our smaller clients, have no more important work to do at this time than that of helping to provide, first, accurate information as to costs and budgets, and secondly, any services that may be needed towards reconciliation and the prevention of industrial stoppages.'

Observing that within the last year or so there had been a number of events in the United States, Canada, and Australia, as well as the United Kingdom, which had turned the spotlight and brought some criticism upon the accountancy profession, the President said that the reputation of a profession depended on the maintenance of high standards, both of work and the observance of a strict ethical code of behaviour. Furthermore, published accounts formed the shop window through which the public at large looked in on the profession.

Whilst it was not possible to achieve complete comparability of accounting practice, it should be possible to improve on the present position. This was what the Accounting Standards Steering Committee had been set up to try to do.

If Britain entered the European Economic Community, continued Mr Croxton-Smith, they might well find themselves working under a common taxation and company law structure. The Council of the Institute was, therefore, paying increasing attention to development in the EEC. Members of the Institute had, for many years, been practising in nearly every country of the world and providing services, not only to local businesses, but also to subsidiaries of UK concerns in those countries.

Practice rights

In many countries members had been admitted automatically to membership of the local body in order to enable them to continue to practice. However, attitudes were now changing and the freedom of members to practice and to provide services to their clients was being challenged.

Every effort was being made by the Institute to resist curtailment of existing rights and to provide acceptance of the concept that accountancy was an international profession. One step which could help to obtain recognition of this view of the profession, would be to grant membership privileges to members of overseas bodies where the Council was satisfied as to the standards of those bodies, and where there was a case for granting such privileges – for instance, when members of overseas bodies were in practice in the United Kingdom.

The dinner was held in the historic St Andrew's Hall in Norwich, with the President of the Society, Mr G. S. H. Dicker, C.B.E., T.D., D.L., F.C.A., in the chair. The toast to the Institute was proposed by Mr T. J. Colman, D.L., J.P., Chairman of Eastern Counties Newspapers Ltd.

Mr P. Scarfe, F.C.A., Vice-President of the Society, proposed the toast of the guests, and the Reverend Austen Williams, Vicar of St Martin in the Fields, London, responded.

The Chartered Accountants' Benevolent Association

Eighty-fifth Annual Report

The report of the Management Committee for the year ended December 31st, 1970, to be presented to the eighty-fifth annual meeting of the Association to be held at Chartered Accountants' Hall, Moorgate Place, London EC2, on Wednesday, May 12th.

THE Association on December 31st, 1970, consisted of 4,949 members and subscribers, viz.:

The President	1,154 Annual Governors
115 Life Vice-Presidents	270 Life Members
123 Annual Vice-Presidents	930 Annual Members
23 Life Governors	2,333 Subscribers

2. During the year assistance has been given from the General Fund in 192 cases (190 in 1969). There were 20 new cases (38) and 12 (8) former beneficiaries were assisted again; in a few cases the Management Committee (hereinafter referred to as 'the Committee') felt that assistance was inappropriate. At the end of the year there were 163 (160) current cases. Assistance from the Special Fund was given in 4 cases (4). The Secretary also dealt with a number of cases involving tentative inquiries or requests for advice.

3. On pages 28 to 31 notes are given on selected cases which were assisted in 1970[1]; many of these cases first arose in that year.

4. The scale on which assistance is given was raised substantially in August 1969 and a further small addition to the scale was made in August 1970 as an interim measure pending a more detailed review of the position.

5. While full advantage is taken in appropriate cases of such assistance as can be obtained from the State and from local authorities, there are many cases, especially where children are concerned, where the whole burden must fall on the Association if adequate help is to be given. Such cases can involve grants at an annual rate of £1,000 or more.

6. Reference was made last year to the fact that the Institute had kindly agreed to send out *in every case* where the death or resignation of a member of the Institute takes place, a note from the Association drawing attention to its ability to help in cases of need. This arrangement started early in 1970 and has been warmly welcomed by recipients of the note.

7. The audited accounts for the year ended December 31st, 1970, are annexed to this report.

8. The principal figures in the accounts for the last five years are:

Year	*No. of cases assisted*	*Relief* £	*Subscriptions* £	*Investment and other income* £
1966–67 ..	121	26,478	14,659	26,076
1967 (10 months)	142	26,885	14,292	27,099
1968	166	35,052	15,240	30,600
1969	190	40,333	13,367	32,470
1970	192	43,577	17,367	36,653

9. In view of the increase in the number of cases assisted and the increase made in the scale of benefits to keep pace with inflation, it is not surprising that the cost of relief has risen by over £3,000. Fortunately the fall in subscription income in 1969 has been more than made up and, with increased income from investments, a surplus of £2,630 after costs of administration is shown against a deficit of £1,553 in 1969. It is likely that the cost of relief will be substantially greater in 1971 and the Committee appeals therefore for greater support from members and would draw attention to the forms of covenant and banker's order on pages 22 and 23[1].

10. In January 1971 the Association was advised by the Institute that in view of the likely financial position of the Institute in 1971, the Council had decided that the Institute's grant to the Association must be discontinued and accordingly that no grant be made for 1971. This grant, which has been between £3,000 and £4,000 in recent years, has been based on the formula which was approved by members of the Institute after a referendum to all members of the Institute which was made in April 1965. The Committee, while appreciating the difficulties faced by the Council, records its concern at this decision and hopes that it will apply only in respect of the year 1971.

11. The Association has received the following bequests and donations:

Bequests	£
William Surridge Peet	500
A. W. Death (additional)	405
A. E. Williamson	300
Mrs M. E. P. Parker	118
C. S. Garraway	105
H. M. Rowe	100
C. E. H. Lacey	50
B. F. Mallett	50
	1,628
Elkanah Mackintosh Sharp Fund (see paragraph 13 below)	30,000
	£31,628

[1] Not reproduced.

Donations	£
Anonymous	128
Beckonscot Model Railway & General Charitable Association	100
The Fitton Trust	100
K. G. M. Harding	100
The Tom Walton Charitable Trust	100
D. B. Cochrane	60
H. Lamdin	60
Anonymous	53
I. Griffiths	53
W. E. Moore	53
C. R. Taylor	53
E. J. Waldron	53
C. W. Yeaxlee	53
Liverpool Society of Chartered Accountants	35
Edmund Howard Charity	25
E. E. Hallam – Melba Pleven Charity	21
Delmar Charitable Trust	20
Women Chartered Accountants' Dining Society	12
Sir Harold Howitt's Charitable Deed	11
Swansea & District Dining Club	11
Cardiff & District Chartered Accountants' Luncheon Club	8
Reginald Harrop 1965 Settlement	5
Maurice Wren Charitable Trust	5
In Memoriam (the late L. H. Fowler)	2
Donations at Summer Courses and other functions	127
Others	310
	£1,558

12. The Committee desires to place on record the generosity of a chartered accountant, who wishes to remain anonymous, who proposes from time to time to make contributions to the funds of the Association from the income of a charitable trust which he has set up. These contributions are to be used towards the current cost of relief payments by the Association; in 1970 £375 was received from this trust.

13. Early in 1970 the Association received a reversionary legacy of £30,000 under the will of Harold Arthur Sharp, F.C.A., who died in 1932. Under the terms of the bequest the capital is to be held in perpetuity as the 'Elkanah Mackintosh Sharp Fund' and it is so described in the balance sheet. The income is available for the general purposes of the Association and is not distinguished from the general investment income.

14. A very large part of the Association's income is derived from its investments and the Committee is grateful to the many benefactors whose bequests and gifts have helped to build up the capital of the Association. It is not practicable for reasons of space to commemorate these benefactions in detail in the annual accounts and the Committee therefore publishes a list of major benefactions not otherwise mentioned individually in the annual accounts. The list on page 19[1] includes only individual benefactions of £2,500 or more.

15. The Committee has no material developments to report in relation to the agricultural properties in Berkshire and Warwickshire. There were minor capital receipts from the sale of two surplus cottages and some standing timber and compensation consequential upon a Tree Preservation Order. These have been applied in reduction of the book figure.

16. Christmas food parcels have, as usual, been sent to the great majority of our beneficiaries and grants for holidays for children have again been made.

17. In the course of 1970 grants were made from the W. B. Peat Memorial Scholarship Fund to assist in the education of eight children.

18. Two further nominations for places in the homes of Crossways Trust for those who are infirm were acquired towards the end of the year. The Association now holds 15 nominations – 10 in homes for the infirm and five in homes for the able-bodied. At the end of the year 9 of the former and 4 of the latter places were filled. At the date of this report one or more places are available in the homes for the able-bodied; for further details please see page 26.[1]

19. Details regarding the Hanover Housing Association, which has now completed no less than 58 housing schemes, appear on page 26.[1]

20. Information regarding the Housing and Community Association, which provides accommodation for those who have retired or are about to retire, is given on page 27.[1]

21. During the year Mr J. F. Aitchison (elected 1962) resigned from the Committee. His work for the Association is gratefully acknowledged.

22. It is the policy of the Committee to ensure that as far as possible a member of the Institute living near a beneficiary, or applicant for relief, acts as a referee and is available to give advice when required. Such assistance from members is of the greatest value to the Committee in considering applications. The Committee wishes to thank district societies, branches, and groups, for their help in appointing members for this purpose and also to thank those appointed for the considerable time and trouble they have taken in helping beneficiaries.

23. The Committee wishes to record its warm appreciation of the work of the Investment Sub-Committee. During the year the Committee accepted with very great regret the resignation of Mr G. L. C. Touche following his retirement from active business life. The Association is deeply indebted to Mr Touche for his advice on investment matters over many years. The value of his contribution is evident from the present financial strength of the Association. The Committee invited Mr J. Rashleigh, F.C.A., to take his place on the Investment Sub-Committee and Mr Rashleigh very kindly agreed to do so.

24. The Committee is grateful to Messrs Markbys, the honorary solicitors, for their services.

25. The Committee thanks the editors of *Accountancy* and *The Accountant* for the publicity they have given to the affairs of the Association during the year.

26. The Committee wishes to place on record its high appreciation of the work of the officers and staff of the Association and of the Institute.

27. Under Rule 6 the three members of the Management Committee to retire in order of seniority of election are Mr D. A. Clarke, Mr M. R. Harris and Miss M. Fox who, being eligible, offer themselves for re-election. No nomination under Rule 8 has been received.

28. The auditors, Mr Bernard William Rivett, F.C.A., and Mr James Mansfield Keith, F.C.A., retire and offer themselves for reappointment. The Committee is grateful to them for the services they render at a modest scale of remuneration.

[1] Not reproduced.

Notes and Notices

PROFESSIONAL NOTICES

BARTON, MAYHEW & Co, Chartered Accountants, announce that on May 31st, 1971, Mr I. N. TEGNER, C.A., will be leaving the partnership to take up an appointment as finance director of The Bowater Paper Corporation Ltd.

EDWIN COLLIER & Co, Chartered Accountants, of Manchester, announce that, with effect from May 1st, 1971, they will amalgamate their practice with that of MANN, JUDD & Co, Chartered Accountants, of Manchester and London, from which date Mr W. F. HAYWARD, F.C.A., will be a partner in the combined firm. Mr FRED BATTERSBY, F.C.A., senior partner of EDWIN COLLIER & Co, will retire from general practice on April 30th. The combined Manchester practice will, as from May 1st, be carried on in the name of MANN, JUDD & Co (incorporating EDWIN COLLIER & Co), from 42 Spring Gardens, Manchester M60 2QS, and Mr W. F. HAYWARD will maintain the service to all EDWIN COLLIER & Co clients.

FULLER JENKS BEECROFT & Co, Chartered Accountants, and LANCASTER, KING, RIDGWAY & Co, Chartered Accountants, announce that their association has now led to an amalgamation and that from May 1st, 1971, the combined Birmingham practices of the two firms is being carried on at St Martin's House, 10 Bull Ring, Birmingham B5 5EN, under the name of FULLER JENKS BEECROFT & Co. The partners resident in Birmingham are Messrs L. V. HAZLEWOOD, F.C.A., H. D. RADFORD, F.C.A., A. P. ROBERTS, F.C.A., and W. B. JAMES, F.C.A.

HARMOOD BANNER & Co (London firm), OGDEN, PARSONS & Co, and LEVER HONEYMAN & Co, who for some time have been in association together, announce a complete merger of their practices with effect from May 1st, 1971. As from that date the combined firm will operate from 34 Farringdon Street, London EC4. The partners will be those of the three existing firms, with the exception of Mr R. MORRIS, F.C.A., of LEVER HONEYMAN & Co, who retires but remains available for consultation. In addition, Mr G. G. WALL, B.A., A.C.A., previously a member of the Liverpool partnership of HARMOOD BANNER & Co, and Mr A. J. SEALE, A.C.A., who has been a member of the staff for some years, are admitted to the London partnership.

HARMOOD BANNER GARDNER & Co, RIDLEY & RIDLEY, RIDDELL STALKER & Co and WHYTE & Co, announce that their practices will be amalgamated with effect from May 1st, 1971. They will practise as HARMOOD BANNER & Co from offices at Ridley House, Regent Centre, Gosforth, Newcastle upon Tyne 3, and 2 Charlotte Terrace, South Shields.

HODGSON, HARRIS & Co, Chartered Accountants, announce that as from May 1st, 1971, they will enter into an association with JONES, HUTCHINSON & Co, Chartered Accountants. Mr W. H. HALL, F.C.A., and Mr G. BLIZZARD, F.C.A., of the firm of HODGSON, HARRIS & Co, will join the present partners of JONES, HUTCHINSON & Co and Mr D. M. JONES, F.C.A., of the firm of JONES, HUTCHINSON & Co will join the present partners of HODGSON, HARRIS & Co. Both firms will continue to practise in their own names from their respective addresses.

JEFFREYS HENRY RUDOLF & MARKS, Chartered Accountants, of Wilec House, 82/84 City Road, London EC1Y 2DA, announce the admission into partnership of Mr DENIS H. WANDERER, A.C.A., and Mr ALAN D. BELL, M.A., A.C.A., on May 1st, 1971.

LANCASTER & Co and HASKINS & Co, Chartered Accountants, of Granville House, 2 Tettenhall Road, Wolverhampton, announce that Mr ANTHONY PETER VAUGHAN HAND, A.C.A., has been admitted into partnership with effect from April 1st, 1971.

Messrs WILLIAM A. LANE, F.C.A., A.M.B.I.M., ARTHUR BLYTHE, F.C.A., and JOHN A. BROWN, A.C.A., have commenced in practice as management consultants in the partnership name of LANE BLYTHE ASSOCIATES of 145 Manor Road, Derby. Mr LANE has spent more than 10 years with the Accounting and Data Processing Division of NCR, whilst Mr BLYTHE and Mr BROWN have in recent years had considerable experience of management assignments.

Mr WILLIAM A. LANE, F.C.A., announces that he has commenced in practice as a chartered accountant in his own name but in association with ARTHUR BLYTHE & Co, Chartered Accountants. Both firms will operate from The Uplands, 145 Manor Road, Derby, and for the time being will continue to practise in their own names.

OLDHAM, HOLLAND & Co, Chartered Accountants, and PRINCE, SIMON & Co, Chartered Accountants, announce the merger of their London practices, with effect from April 6th, 1971. The two firms will, for the present, continue to practise under their respective names from Boston House, 63/64 New Broad Street, London EC2. The partners of OLDHAM, HOLLAND & Co, Messrs D. O. JOHNSTON, F.C.A., J. A. HUME, F.C.A., S. R. MARSHALL, F.C.A., and B. E. SHEDEL, F.C.A., will become partners of PRINCE, SIMON & Co, together with Mr A. G. CHESTON, F.C.A., of PRINCE, SIMON & Co who will become a partner of OLDHAM, HOLLAND & Co. Messrs LESLIE B. PRINCE, M.A., F.C.A., A. P. W. SIMON, T.D., F.C.A., and M. E. G. PRINCE, M.A., F.C.A., at present partners of

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PRINCE, SIMON & Co, will remain with the firm as consultants.

PANNELL FITZPATRICK & Co and W. H. WALKER & Co, with PRICE SON & REID (London) and NEAL & NEAL (Liverpool) announce that on May 1st, 1971, they are joining in practice in Liverpool, Isle of Man, and London. Messrs W. A. CROWE, F.C.A., G. R. LEECE, F.C.A., and W. P. GILMOUR, A.C.A., of W. H. WALKER & Co, will become partners in PANNELL FITZPATRICK & Co (London) and Mr GILMOUR will continue to be resident in London. Messrs W. J. LEEMING, F.C.A., and R. H. MORCOM, F.C.A., of PANNELL FITZPATRICK & Co (London), will become partners in the Liverpool firm which will continue to operate under the existing Liverpool resident partners. Mr LEEMING and Mr D. I. MAIN, F.C.A., of PANNELL FITZPATRICK & Co (London), will become partners in the Isle of Man firm which will continue to operate under the existing Isle of Man resident partners.

WHITING & PARTNERS, of Wisbech, March, Bury St Edmund's, King's Lynn, and elsewhere, announce that Mr THOMAS JENNINGS WHITTINGDALE, A.C.A., who has been with the firm as a senior assistant, has been admitted to partnership, and will be mainly engaged at the Bury St Edmund's, Ely, and Mildenhall offices of the firm.

APPOINTMENTS

Mr M. Barnes, F.C.A., has been appointed secretary of Westland Aircraft in succession to Mr A. R. B. Hobbs, F.A.C.C.A., who has relinquished the appointment in order to devote more time to the expanding activities of Westland Helicopters of which company he is finance director.

Mr K. G. Bishop, F.C.A., financial controller of Carreras, is to relinquish his appointment in July to join the board of Debenhams as financial director.

Mr Julian Evans, F.C.A., has been appointed finance director of A.B. Electronic Components.

Mr Ronald Gulliver, A.C.A. (formerly with P. A. Thomas & Co, Chartered Accountants), has been appointed chief accountant and tax planning manager of Nabarrow, Nathanson & Co, Solicitors.

Mr C. Jeffs, F.C.A., has been appointed to the board of John Willmott Construction. He will continue as secretary of the holding company – John Willmott Holdings.

Mr Alan J. Merrett, F.C.A., has become secretary of A. F. Budge in addition to his appointment as financial controller of the group.

Mr B. J. Eales, F.C.A., secretary and treasurer of British Enkalon, has become a divisional director of British Enkalon.

Mr B. J. Eales. Mr J. L. Robinson.

Mr John L. Robinson, A.C.A., has become group financial controller of Greengate & Irwell Rubber Co.

Sir Harry Page, M.A., F.I.M.T.A., who retired as City Treasurer of Manchester Corporation earlier this month, is to join the board of Long, Till & Colvin Ltd as from June 1st next. Mr William Appleyard, F.C.A., F.I.M.T.A., will be retiring from the board as from June 30th.

Mr J. M. Paton, B.L., C.A., M.I.M.C., has been elected chairman of the board of W. Notting.

Mr Ian Tegner, C.A., a partner in the firm of Barton, Mayhew & Co, auditors of The Bowater Paper Corporation, will join the Corporation on August 1st as finance director and will be elected a director of the Corporation as from that date.

ESTATE DUTY

Under the Finance Bill, the rates of estate duty applicable to deaths after March 30th, 1971, will be as follows:

Slice of net capital		*Rate*
Exceeding £	*Not exceeding* £	*of duty per cent*
	12,500	Nil
12,500	17,500	25
17,500	30,000	30
30,000	40,000	45
40,000	80,000	60
80,000	150,000	65
150,000	300,000	70
300,000	500,000	75
500,000	750,000	80

Over £750,000 – 85 per cent, with a ceiling of 80 per cent overall, effective at £2,070,000 and over.

Property which constitutes a separate estate will be exempt from aggregation if its value does not exceed £12,500, instead of £10,000.

The Bill also introduces an option to pay estate duty by instalments, spread over eight years in the case of shares which have to be valued by reference to the value of the company's assets; other holdings of unquoted shares in cases where immediate payment of the duty would cause undue hardship; unincorporated businesses; and certain interests in land which do not already qualify for instalments.

These proposals are subject to the approval of Parliament and will not have legal effect before the Finance Bill becomes law. The Inland Revenue has, however, announced its intention of giving them provisional effect forthwith.

TAX RESERVE CERTIFICATES

The Treasury have announced that the rates of interest on Company Tax Reserve Certificates subscribed on or after April 26th, will be 4½ per cent per annum on certificates tendered in payment of tax, and 2½ per cent per annum on certificates surrendered for repayment in cash. The certificates are tax free.

The rates of interest on Company Tax Reserve Certificates subscribed before April 26th will remain unchanged, and the rate of interest on Personal Tax Reserve Certificates will continue to be 4 per cent per annum.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

President's Luncheon

The President of The Institute of Cost and Works Accountants, Mr Stanley Woods, J.P., F.C.W.A., gave a luncheon party on Thursday of last week at 63 Portland Place, London W1. Those present were: Mr Arthur Fryer, B.E.M., F.C.W.A., assistant treasurer, Imperial Chemical Industries Ltd, Mr J. F. Holman, C.B.E., M.A., C.ENG., M.I.MECH.E., F.I.P.E., Mr Ian T. Morrow, C.A., F.C.W.A., Professor E. E. Rich, LITT.D., Master, St Catharine's College, Cambridge, Mr S. T. Ryder, chairman and managing director, Reed International Ltd, Mr A. W. C. Ryland, C.B., chairman and chief executive, The Post Office, Sir John Toothill, C.B.E., LL.D., D.SC., F.C.W.A., J.DIP.M.A., director, Ferranti Ltd, The Hon. G. H. Wilson, B.A., F.C.A., F.C.W.A., J.DIP.M.A., financial director, Enfield-Standard Power Cables Ltd, Dr E. G. Woodroofe, PH.D., F.INST.P., M.I.CHEM.E., chairman, Unilever Ltd, Mr M. H. Walters, C.B.E., secretary of the Institute.

REVENUE PAPER

Easter Sittings 1971

The following cases are down for hearing during the Easter Sittings 1971:

HOUSE OF LORDS

F.A. & A.B. Ltd *v.* Lupton
Lynall and another *v.* CIR
Greenberg *v.* CIR
Tunnicliffe *v.* CIR
Thomson *v.* Gurneville Securities Ltd

Awaiting judgment
Shell Petroleum Co Ltd *v.* Jones
BSC Footwear Ltd (formerly Freeman, Hardy & Willis Ltd) *v.* Ridgway
British Petroleum Co Ltd *v.* Cropper

COURT OF APPEAL

Walker *v.* Harrowes and Others
General Reinsurance Co Ltd *v.* Tomlinson
Alherma Investments Ltd *v.* Tomlinson
Rose *v.* Humbles
Fleming *v.* Associated Newspapers Ltd
CIR *v.* Brown
Odeon Associated Theatres Ltd *v.* Jones
Peay *v.* Newton
Horton *v.* Young
Weston *v.* Young
Bridge House (Reigate Hill) Ltd *v.* Hinder
Parkin *v.* Cattell
Philippi *v.* CIR
National & Grindlay's Bank Ltd *v.* Ball

HIGH COURT (Chancery Division)

Moore *v.* R. J. Mackenzie & Sons Ltd
CIR *v.* R. J. Mackenzie & Sons Ltd
Restorick *v.* Godber
Restorick *v.* J. H. Woodward (Contractors) Ltd
Restorick *v.* Parry
Restorick *v.* Godber, Parry and Parry
Malcolm-Brown and Horn (Trustees of Mollie Helme Settlement) *v.* Restorick
Ransom *v.* Higgs
Motley *v.* Pickersgill and Jenkins (Trustees of Higg's Settlement)
Kilmore (Aldridge) Ltd *v.* Dickinson
Dickinson *v.* Downes
Grant *v.* Trustees of Downes 1962 Settlement
Pritchard *v.* Arundale
Sinsbury *v.* O'Brien
Thompson *v.* Mohammed Salah
Crisp Malting Ltd *v.* Bourne

ECONOMIC CONDITIONS OVERSEAS

A further booklet in the series of annual economic surveys of development and prospects in member countries of the Organization for Economic Co-operation and Development has recently been issued covering Ireland. Copies of the booklet are obtainable from HMSO, price 27½p.

CORRECTION

Discretionary Trusts

Part 1 of Mr Bower's article last week referred to 'the possibility of exempting the free estate from aggregation if it is worth less than £10,000'. The Finance Bill, which was not published until after these words were written, proposes to increase this exemption to £12,500.

The block diagram on page 516 is unfortunately out of proportion. The lower block should be three times the height of the upper, with equal shares to B, C, and D in the second half of the six-year period.

GOLF – THE WOOD CUP

The annual match between the Association of Scottish Chartered Accountants in London Golf Club and the Chartered Accountants' Golfing Society for the Wood Cup was played at the Stoke Poges Golf Club on April 15th. The contest consists of Stableford foursomes competitions under handicap over 36 holes. The six best scores of both the Scottish and English Societies decide who shall hold the cup for the year. On this occasion this was won by the Scottish Society who beat the English Society by 353 to 346 points.

CAG Society	*Pts*	*Scottish Association*	*Pts*
R. Anderson J. Hart	63	J. D. St. C. Harrison M. G. Crabtree	66
J. E. Foreman H. J. Finden-Crofts	61	E. F. Milne G. F. Todd	61
N. Grenfell J. Franklin	57	M. G. M. Haines Whitworth-Jones	59
E. H. Head H. C. Staines	55	D. C. G. Todd G. R. Walker	58
D. M. Nunn J. N. Bradfield	55	H. C. Hopkins, Jr M. R. Hargreaves	55
W. H. Parton A. P. Ohrenstein	55	D. Ness H. C. Maclellan	54
Total	346	Total	353

Prize-winners (no pair could take more than one prize) were:

Thirty-six holes
First: J. D. St C. Harrison (a.m. 34) – M. G. Crabtree (p.m. 32) 66

Morning
First: J. E. Foreman and H. J. Finden-Crofts (on last nine 19 points) .. 32
Second: M. G. M. Haines and Whitworth-Jones (on last nine 18 points) .. 32

Afternoon
First: R. Anderson and J. Hart 33
Second: D. Finfer and A. D. Knox 30

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ADVERTISERS' INDEX FOR APRIL 1971

Australian Supplement, April 29th
Australian Government
Australian Society of Accountants
Australasian Migrants' Parents and Relatives Association Ltd (AMPARA).
Bank of Adelaide
Bonners of Welling Ltd
Butterworths
Commercial Banking Company of Sydney Ltd
Commonwealth Savings Bank of Australia
Commonwealth Trading Bank of Australia
Gee & Co (Publishers) Ltd
Escombe McGrath & Co Ltd
Alan Hickinbotham Pty Ltd
The Institute of Chartered Accountants in Australia
LEP Packing Ltd
The National Bank of Australasia Ltd
Pickfords Ltd
Qantas Airways Ltd
State Savings Bank of Victoria
Sweet & Maxwell Ltd

Building Societies
Abbey National (29th)
Leeds and Holbeck (15th)
Leek and Westbourne (15th, 29th)
Leicester Permanent (8th, 22nd)
Leicester Temperance (22nd)
Nationwide (15th)
Property Owners (15th)

Calculators/Service
Decimo Ltd (11th)
Essex Calculating Service Ltd (weekly)

Charities
Imperial Cancer Research Fund (8th)
Methodist Homes (22nd)

Company Documents and Filing
Lewis, Coates & Lucas Ltd (weekly)

Company Meeting
Legal & General Assurance Society Ltd (29th)
Turner & Newall Ltd (1st)
Property Owners Building Society (15th)

Computers
Computer Interfaces Ltd (22nd)
Hoskyns Systems Management (weekly)
Univac Division Sperry Rand Ltd (22nd)

Correspondence Colleges
H. Foulks Lynch & Co Ltd (8th, 22nd)
Metropolitan College (weekly)
The Rapid Results College (1st, 15th, 29th)
The School of Accountancy and Business Studies (8th, 22nd)

Credit Collection
Credit Collection Group of Companies (8th)

Courses
Foulks Lynch (Classes) Ltd (8th, 22nd)

Estate Duty
Capital Annuities Ltd (22nd)

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Crusader Insurance Company Ltd (1st, 22nd)
Equity and Law Life Assurance Society Ltd (15th)
Legal & General Assurance Society Ltd (22nd)
National Vulcan Engineering Insurance Group Ltd (15th)
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Henry Ansbacher Ltd (1st)
Kleinwort Benson & Co Ltd (8th, 22nd)
Long, Till & Colvin Ltd (8th, 22nd)
Minster Trust Ltd (15th)

Office Equipment
Andrew Stephens (1947) Co (1st)
Betterways Ltd (18th)
Dillex Industries Ltd (8th, 29th)
John Strand Contracts Ltd (29th)

Pension Funds
National Association of Pension Funds (29th)

Professional Associations
The Association of International Accountants (15th)
The Institute of Taxation (1st, 29th)

Professional Indemnity Insurance
C. T. Bowring & Muir Beddall (Home) Ltd (8th)

Printers/Publishers
Butterworths (22nd)
Gee & Co (Publishers) Ltd (weekly)
H.F.L. (Publishers) Ltd (22nd)
Heinemann (8th)
Jordan & Sons Ltd (8th)
Macdonald & Evans (22nd)
Pitman Publishing (1st)
Sweet & Maxwell (8th)

Property/Auctions/Investment
Henry Butcher & Co (1st, 15th, 29th)
Dibb & Clegg and Brandon & Nicholson (15th)
Healey & Baker (1st, 22nd)
Knight Frank & Rutley (8th, 15th, 22nd)

Sailing Dinghies
Mirror Class Association (8th)

Seminar
Associated Business Programmes Ltd (8th, 22nd)

Staff
Richard Owen Associates (weekly)
The Wren Bureau (1st, 15th, 29th)

Taxation Services
Extel Statistical Services Ltd (8th, 22nd, 29th)

Unit Trust
Hillier Parker May & Rowden (Grasshopper Unit Trust) (8th)
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Valuers/Surveyors
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John Foord & Co (weekly)
Edward Rushton & Co (22nd)
Fuller Peiser & Co (1st, 15th, 29th)
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Knight Frank & Rutley (8th, 15th, 22nd)
Orridge & Co (weekly)

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THE
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CLOSE COMPANIES

COMMON MARKET MEMBERSHIP

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Practical Tax Reform

WHATEVER the general public may believe, certainly no reader of this journal imagines that the reform of personal and corporate taxation promised by the Chancellor will transform the tax statutes overnight. Quite apart from the obvious problems of transition, there remains in the Income Tax Acts a welter of complex and confusing legislation which cries out for reform, or even elucidation.

It is only three years since the then President of the English Institute made representations to Mr Roy Jenkins on the obscurity of language and complexity of so much recent tax law. At the same time the Institute urged upon the authorities the possibility that more could be done both to avoid such obscurity and complexity by means of prior consultation with accountancy and legal practitioners, who often bore the brunt of the draftsmen's deficiencies and Parliament's oversights.

Not least for this reason, the recent report of the Law Commissioners on *Taxation of Income and Gains derived from Land* (Cmnd 4654, HMSO, 15p) is greatly to be welcomed. As the Commissioners put the point in their submission to the Lord Chancellor, 'it is a matter of common knowledge that the tax statutes are not easy reading and we had hoped that, even if nothing could be done by us about the content of the law, something at least could be done about its form'. No practising accountant would dissent from such admirable sentiments!

In the event, the Law Commissioners set up a consultative group incorporating both lawyers and accountants, amongst whom both the English and Scottish Institutes were represented. Members of the Board of Inland Revenue acted as secretaries, and it was the Board which suggested to the Law Commissioners that the first topic to be discussed by the consultative group should be the taxation of income and gains derived from land.

The group's terms of reference were to consider such taxes with a view to improving the form and arrangement of the tax legislation in order to make the law easier, both to find and to understand. The result is, according to the Law Commissioners, that the consultative group 'have felt able to suggest a number of changes of a substantive nature which, while altering the law only in minor respects, would result in considerable simplification of the tax system'.

Among the matters reported on by the group are the treatment of expenditure deductible from income derived from property,

premiums for leases and rents of mines, quarries and gravel-pits, the treatment of part disposals for capital gains and in respect of wasting assets.

Quite apart from the actual proposals made by the group, discussion of the points at issue is not the least interesting or important product of this particular exercise in tax reform. In the view of the Commissioners 'it is perhaps the most valuable result'.

A particularly pleasing aspect of the entire novel exercise is the conclusion of the Law Commissioners that it has shown that 'it is possible for a broadly based group of experts to discuss and make useful recommendations about tax matters without impinging on fiscal policy'.

This is an encouraging start which, it is to be hoped, will persuade the Inland Revenue that much more can be accomplished in this field. Furthermore, the newly constituted Select Committee on Expenditure and Finance might well find it advantageous to have a sub-committee of this type.

FINANCE BILL

Close Companies

CLAUSE 17 of the new Finance Bill contains some easing of the position of close companies. The existing special provisions aimed against such companies are contained in Chapter 3 of Part XI of the Taxes Act 1970. The new clause is to be construed as if it were included in that chapter.

In the first place, clause 17 will have the effect of reducing the total number of close companies. This arises from sub-clause (6) which extends the scope of section 282 (4) of the Taxes Act 1970. The sub-section reads (our italics):

'(4) A company is not to be treated as a close company in any case where:

(*a*) by reason of *beneficial* ownership of shares in the company, the control of it is in the hands of a *company* which is not a close company, or of two or more companies none of which is a close company; and

(*b*) it could only be treated as a close company as being under the control of five or fewer participators, and it cannot be so treated except by taking as one of the participators a company which is not a close company;

but so that references in this subsection to a close company shall be treated as applying to any company which, if resident in the United Kingdom, would be a close company'.

The new sub-clause (6) is concerned with the ownership of shares upon trust (and therefore, of course, not beneficially) for any of the following:

(i) a fund or scheme approved under sections 208 or 222 of the Taxes Act; or

(ii) an exempt approved scheme as defined in Chapter 2 of Part 2 of the Finance Act 1970.

The persons (whether companies or not) holding the shares are to be treated for section 282 (4) purposes as (i) the *beneficial* owners; and (ii) a company which is not a close company. This will save a good many companies from becoming close companies merely because their shares happen to have been chosen as a suitable investment for some superannuation fund. However, this new dispensation will not apply where the fund or scheme is, broadly speaking, connected with the company, or has been set up for the employees, etc., of a close company.

In other words, sub-clause (6) does not apply where the fund or scheme is established wholly or mainly for the benefit of:

(i) employees, past employees, and their dependants; or

(ii) directors, past directors, or their dependants of any of the following:

(*a*) the company in which the shares are held; or

(*b*) an 'associated company' of the company at (*a*);

(*c*) a company under the control of any director (or his associate) of the company at (*a*) or is under the control of two or more persons each of whom is such a director or associate; or

(*d*) a close company.

As clause 17 is part of Chapter 3, it follows that the expressions 'director' and 'associate' are as defined in section 303; while 'associated company' and 'control' are as defined in section 302 (1).

Of more general interest is the change introduced by clause 17 (1) in the maximum and minimum amounts for the purpose of section 290 (5) in relation to the computation of the 'required standard' for a trading company. If the estate or trading income (after corporation tax) does not exceed £5,000 (in relation to 12 months) and the company has no associated company in business in the accounting period, then the whole estate or trading income is disregarded. If, for such a company, the estate or trading income does not

exceed £15,000, then the 60 per cent maximum is to be calculated as though the estate or trading income were reduced by one-half of the deficiency.

If the company has one, but only one, associated company in business the £15,000 and the £5,000 are reduced to one-half. If the company has two associated companies then these sums are reduced to one-third and so on. These changes should reduce the trend from companies to partnerships.

Section 291 (3) of the Taxes Act 1970 provides that in arriving at 'distributable investment income', one is to deduct whichever is the smaller of:

(*a*) 10 per cent of the estate or trading income (net of corporation tax), and

(*b*) £200 (for a twelve-month accounting period).

Clause 17 (1) (*c*) increases the £200 to £500.

These changes in clause 17 (1) have effect from any accounting period ending after March 30th, 1971. However, where the period begins before that day there is provision for an apportionment. One must compute the relief under section 290 (5) and 291 (3) on the old footing and then apportion that relief to the period falling before March 30th. It is then necessary to calculate the relief under the new provisions and apportion that to the remainder of the accounting period. The two apportioned reliefs are then aggregated.

It is a pity that the draftsman did not choose March 31st in order to avoid splitting the innumerable accounts produced for the year ended on that date in 1971. The amount of relief for the odd day will in most cases be scarcely worth calculating.

Sub-clauses (2), (3) and (4) of clause 17 are intended to soften the shortfall provisions in relation to investment income of companies engaged in insurance; banking; money-lending; financing of hire-purchase; financing of transactions similar to hire-purchase; and dealing in 'securities'.

The activities of the company must consist wholly or mainly of the carrying on of the trade. Presumably if it carried on two or more of the above-mentioned trades as separate trades, it would still qualify. Clause 17 (2) says that in so far as such a company has income 'incidental to that trade' which is not already within the definition of estate or trading income, then for the purpose of arriving at the required standard in relation to shortfall, such income shall be treated as 'estate or trading income'.

For this purpose, a special definition is given to the phrase 'incidental to' the trade. The income must satisfy the following requirements:

(*a*) either it is:

(i) derived from investment (not being an investment in a 51 per cent subsidiary); *or*

(ii) it is interest on a debt; and

(*b*) (i) 'any profit on the sale of the investments would be a trading receipt'; or

(ii) if the debt was proved to be a bad debt it would be allowed as a deduction for corporation tax purposes.

Some vagueness in the draftsman's mind is betrayed by paragraph (*b*) (i) above. It is not the profit on the sale of trading stock which is a 'trading receipt'; it is the total proceeds. However, it is to be hoped that no tax inspector will haggle about this.

The new provisions apply to any accounting period which ends after March 30th, 1971, and there is no provision for apportionment. Moreover, if a shortfall assessment for any earlier period is not finally determined, the company can elect (by notice to the inspector) that clause 17 (2) shall apply to that earlier accounting period.

The expression '51 per cent subsidiary' is defined in section 532 (1) (*a*). It applies to a company where more than 50 per cent of the ordinary share capital is owned directly or indirectly by the holding company.

The final alterations relate to section 286 of the Taxes Act, which imposes liability on a close company in respect of loans to participators. Section 286 (3) already exempts loans to directors or employees of the close company (or of its associated company) in certain closely defined circumstances. Clause 17 (5), which relates to loans made after March 30th, 1971, makes detailed alterations, the result of which is that section 286 (3) will read as follows:

'(3) This section shall not apply to a loan made to a director or employee of a close company, or of an associated company of the close company; if

(*a*) . . . (repealed);

(*b*) neither the amount of the loan nor that amount when taken together with any other outstanding loans which:

(i) were made by the close company or any of its associated companies to the borrower, or to the wife or husband of the borrower; and

(ii) if made before March 31st, 1971, were made for the purpose of purchasing a dwelling which was or was to be the borrower's only or main residence;

exceeds £15,000 and the outstanding loans falling within sub-paragraph (ii) above do not together exceed £10,000; and

(*c*) the borrower works full-time for the close company, or any of its associated companies; and

(*d*) the borrower does not have a material interest in the close company or in any associated company of the close company;

but if the borrower acquires such a material interest at a time when the whole or part of any such loan made after March 30th, 1971, remains outstanding the close company shall be regarded as making to him at that time a loan of an amount equal to the sum outstanding'.

CURRENT AFFAIRS

Audit Working Papers

IN the absence of an adequate set of working papers, the practising accountant may well exclaim, with Hamlet, that 'how his audit stands, who knows save heaven?'. One of the points which emerged very clearly from last week's 'Modern Auditing' course of the London and District Society of Chartered Accountants (reported on other pages) was the importance of comprehensive audit documentation – not only for the accountant's guidance in planning the work and doing a comprehensive job, but also for the record of what has in fact been done in the unhappy event of a disputed fee or an allegation of professional negligence.

The General Educational Trust of the English Institute published earlier this year a set of specimen audit files, in two volumes exemplifying, respectively, the current year's and the permanent papers. These specimens are based on the principles that the audit – assumed to be of a medium-sized manufacturing company – should comprise an examination of the system of book-keeping and internal control, followed by such tests and inquiries as are necessary to establish whether the system is being properly carried out; comparison of the annual accounts with the underlying records; verification of assets and liabilities; verification of the results shown by the profit and loss account; and confirmation that all relevant statutory requirements have been complied with.

The level of audit tests must obviously be a matter for the auditor's own decision in the light of prevailing circumstances; and as an aid to such decision, the introduction to the specimen files categorize client companies from A to E, ranging from those large companies with well-defined and effective routines to small concerns with no effective internal control at all. The specimen company is in category B, as a medium-sized concern whose system of accounting and internal control is basically sound and effectively carried out.

The specimen files include examples of the selection of items for testing, the preparation of a detailed audit programme, the follow-up of areas of weakness with the client and the final partner review of matters arising on the accounts. The audit techniques exemplified in this publication are not represented as being necessarily the best or the only ones available, but are considered to be representative of current practice, as outlined in the Institute's statement U 12 *Auditors' Working Papers* (*The Accountant*, June 14th, 1969). The initial response by practitioners to the publication, at £15 per set of two volumes, suggests that it will gain early acceptance as a standard work of reference.

Irish Institute's New President

MR NIALL CROWLEY, F.C.A., was elected President of The Institute of Chartered Accountants in Ireland at the eighty-third annual meeting held in Belfast last Saturday.

One of the youngest members of the Institute to be elected President, Mr Crowley who is 44, is senior partner in the firm of Kennedy Crowley & Co, Chartered Accountants, of Dublin. He was articled within the firm, of which his father was co-founder, and after gaining second place in the final examination, was admitted to membership of the Institute in 1949. He was elected a Fellow of the Institute in 1955.

Mr Crowley holds a number of directorships including Allied Irish Banks Ltd, Munster & Leinster Bank Ltd, Irish Life Assurance Co Ltd and Alliance & Dublin Consumers' Gas Co.

Married, with six children, Mr Crowley is a keen golf and bridge player.

The new Vice-President of the Institute is Mr Charles H. Nicholson, F.C.A., of London.

The Irish Budget

ON the face of it, the 1971 Budget presented by the Minister of Finance of the Irish Republic on April 28th is a run-of-the-mill, as-you-were event. Such few benefits as there are go to the farmers for machinery grants or improved milk and pig prices, and to those receiving social welfare benefits in the shape of better public and military service pensions and in additional cost-of-living allowances for the aged, widows, children, deserted wives, sick and unemployed.

Raising the required £9 million to meet these benefits was another matter. Petrol could hardly stand another increase, and the tobacco revenue was already £4 million down on the 1970–71 estimate, so the third old reliable bore the brunt – beer being increased by one new penny a pint, and spirits by two new pennies a glass, each increase bringing in an extra £1 million annually. The reduced rate of tax of two-thirds on the first £100 of income – a clumsy expedient introduced last year – has been abolished, putting about £12 per annum on 400,000 taxpayers, while minimum earned income relief is raised by £25 per annum.

As an anti-inflation measure, government spending – which had risen by 18 per cent in 1968–69, 16 per cent in 1969–70, and 18 per cent in 1970–71 – is to be cut back from the original estimate of £797 million for 1971–72 to £721 million – still an increase of 9½ per cent on the previous year. This, said the Minister,

represented the main effort of his budgetary policy and was of much greater significance than the changes to be announced later.

In order to encourage industrial investment, free depreciation would be permitted from April 1971 to March 1973 on new machinery and plant other than road vehicles. An additional 20 per cent investment allowance would be given in designated areas.

The range of death duty rates for estates from £55,000 up to £200,000 was lifted from 30 to 40 per cent to a new 33 to 55 per cent, with some minor concessions in allowances. Measures to deal with certain avoidance devices are to be introduced in the Finance Bill.

The final result of the Minister's proposals is to bring revenue and current expenditure into balance at £551 million, compared with £490 million in 1970–71.

'A' Level Entry for ICWA

THE Institute of Cost and Works Accountants is to raise the education requirement for new Associateship students to five GCE passes, including at least two at 'A' level. 'Must' subjects are mathematics and English.

Equivalent qualifications will be accepted, and for this purpose a 'credit' pass in the examination for the ONC, or OND, in Business Studies will be regarded as the equivalent of a GCE pass at 'A' level. The higher entry standard will apply to all applicants whose GCE (or equivalent) examinations are taken after December 31st, 1972.

The Council decision follows the statement on policy issued to all members in May 1970 (*The Accountant*, May 21st, 1970) and recognizes that the increasingly exacting demands of industry, commerce and the public service necessitate a high level of general education in the entrant to the profession.

At the same time, the Council recognizes that there is a need for cost and management accountancy services at a variety of levels of skill, and that a social responsibility exists to encourage and provide a career for those who have not reached the new higher entry standard.

Names and Numbers

THE long-awaited 1970–71 *List of Members* of The Institute of Chartered Accountants in England and Wales has now appeared, and copies are available at £1·50 to members of the Institute and £5·00 to other persons, post free in both cases, or £1·20 to members in person at Chartered Accountants' Hall. The making

Mr E. A. Lediard Smith, F.A.C.C.A., the outgoing President of The Association of Certified and Corporate Accountants, invests the new President, Mr R. P. Crout, F.A.C.C.A., with the Presidential badge of office following his election on Tuesday of last week.

At the President's Dinner of the Association held at Mercers' Hall on Monday of last week. *Left to right:* Mr R. P. Crout, the then Vice-President of the Association; Mr Peter Black, Chairman, Greater London Council; Sir Peter Rawlinson, the Attorney-General; Mr E. A. Lediard Smith, President of the Association; The Rt Hon. Lord Denning, Master of the Rolls; and The Rt Hon. Lord Shawcross, Chairman of the Panel on Take-overs and Mergers.

of a charge for the *List* is an innovation which (as indicated in *The Accountant* for April 15th) has been forced upon the Institute by the state of its finances; another innovation is that the topographical section of the *List* is now available on request as a separate publication, price 75p.

Within the format, several changes have been made as a concession to the computer installation which is now responsible for the storage of information and typesetting. This particularly affects the symbols used to identify practising members, incorporated accountant firms, holders of the Certificate in Management Information and other marks of distinction; the asterisk now has a different significance, the single and double daggers have disappeared entirely, and a small triangle conveys (to the initiated) different messages according to whether it is black or white, and whether standing on base or apex.

On the credit side, the extra-bold typeface now used for members' names in the alphabetical section, though startling at first sight, certainly assists effective reference; and the map of district society areas is particularly welcome.

Other innovations include a separate section for practising members and firm names (the latter of which no longer appear in the main alphabetical section) and the publication of each member's computer code number. This number, though certainly a poor substitute for either 'Mr' or 'Esq' in addressing mail to members, may yet have a use in identifying similar sets of initials or indecipherable signatures; and if members rising to speak at annual meetings could be induced to address the chair as 'Sir', followed by their last three, the task of shorthand writers would be greatly eased.

Part Disposals of Land

TO save work for taxpayers and their advisers where part of an estate is disposed of (e.g., on the sale of a field) the Board of Inland Revenue will accept that, for the purpose of capital gains tax, the part disposed of may be treated as a separate asset. Any fair and reasonable method of apportioning part of the total cost to it will be accepted – e.g., a reasonable valuation of that part at the acquisition date. Where the market value at April 6th, 1965, is to be taken as the cost, a reasonable valuation of the part at that date will similarly be accepted.

The cost of the part disposed of will be deducted from the total cost of the estate, or the balance of total cost, to determine the cost of the remainder of the estate; thus the total of the separate amounts adopted for the parts will not exceed the total cost. The cost attributed to each part must also be realistic in itself.

The taxpayer can always require that the general rule (which requires the unsold part to be valued) should be applied, except in cases already settled on the alternative basis. In that event, it will normally be necessary to apply this rule to all subsequent disposals out of the estate; but where the general rule has been applied for a part disposal before the introduction of the alternative basis and it produced a result broadly the same as under the alternative basis, the alternative basis may be used for subsequent part disposals out of the estate.

The alternative basis will not apply to part disposals between April 6th, 1967, and July 22nd, 1970, where development value was involved; and in other cases the Board reserve the right to apply the general rule if they are not satisfied that the apportionments claimed are fair and reasonable. Taxpayers who wish to adopt the alternative basis will still be able to claim under existing statutory provisions that certain small disposals out of an estate should be deducted from cost instead of being assessed.

Instructions about the alternative basis are being issued to Inspectors of Taxes, who will be able to give information on its application to particular cases.

National Management Game

TWO hundred and sixty teams have won their group games in the first round of the National Management Game, and 520 'companies' have been eliminated. The winning teams now move on to the second round which commenced on Monday of this week.

This largest-ever National Management Game, sponsored by The Institute of Chartered Accountants in England and Wales, International Computers Ltd and the *Financial Times*, initially involved 760 teams when the 1971 competition started last January. Many of the teams taking part entered under pseudonyms but most of them are from business organizations, banks, insurance companies, local groups of accountants, business schools, chambers of commerce and local Government departments throughout the country. Among those eliminated in the first round were teams from Gaynsford Borstal and Wakefield Gaol.

During the first round the contestants were provided with favourable market conditions and profits of up to £9 million were made. Conditions in the next round will be less favourable and there will be stiff competition to be among the 64 winners when the round ends on May 24th. These 64 companies will then be reduced in a further three rounds until the winners emerge. The final will be played 'live' at International Computers' headquarters in Putney on Saturday, July 31st.

A management game involving 500 teams is at present being organized in Australia and several other countries are also arranging their own competitions. The possibility of an international challenge match is being considered.

UEC Study Conference 1971

REGISTRATIONS are now being accepted for the study conference which is to be held in London from October 4th to 8th, 1971. The conference theme will be *The development of the accountancy profession*

and practice in Europe in the 1970s, and discussion groups will be organized on a language basis.

The registration fee is £50 for participants and £30 for each accompanying person. As well as the discussion group sessions and plenary meetings, a wide variety of social events is being arranged.

Preliminary details about the study conference were circulated to the member bodies of UEC last year (*The Accountant*, December 31st, 1970). A detailed brochure and registration form have now been issued to all those persons who returned provisional notification forms. Anyone who has not received a copy of the brochure and registration form, and who might be interested in attending the conference, is asked to contact the organizers without delay, at Chartered Accountants' Hall, Moorgate Place, London EC2R 6EQ.

Registrations close on May 31st, 1971, and the number of participants is being limited to 400.

True and Fair

A ONE-DAY conference on the theme 'Traditional Accounting Principles – Do they give a True and Fair View?' has been arranged by Foulks Lynch (Management Services) Ltd, at Chartered Accountants' Hall on May 19th, at which several well-known authorities will outline the deficiencies of outmoded accounting conventions and suggest practical alternatives. The conference chairman will be Professor Trevor Gambling, of Birmingham University, and the speakers will be Professor Edward Stamp, Lord Wilfred Brown, and Professor Gerald Lawson.

The conference fee will be £25, inclusive of conference papers, light refreshments, and a four-course luncheon. Application may be made to Mr R. E. G. Perrins, F.C.A., Foulks Lynch (Management Services) Ltd, 4–7 Chiswell Street, London EC1.

THIS IS MY LIFE

Expert Opinion

by An Industrious Accountant

LAST week the managing director found me to be less than inspired in my efforts to calculate the true intrinsic value of the ordinary shares in a company he fancied, but he wasn't easily discouraged. The next morning he tried again. 'Let's go down to our stockbroker to discuss his own method of share valuation', he suggested, 'so that we can use it ourselves in future'.

I assented, but with misgivings. I'd already perused the broker's recent write-up on the share in question, and found it an example of non-inspiration. It consisted of a précis of the company chairman's last speech, a random scattering of figures, and a tails-I-win, heads-you-lose verdict that the shares were recommended as a reasonably good investment for those not seeking early price appreciation.

However, we ventilated our problem to our broker, a worldly-wise expert with an understanding smile. He was surprised, he said sardonically, that an accountant should seek his help in view of our recent official pronouncement on earnings per share; surely it was only a short step from that point to value per share . . . possibly we'd like him to put together a preliminary draft for us?

I said mildly that we were puzzled by a rival broker's comment to the effect that prudent investors in this particular equity would be well advised to take their profits promptly, so the MD averted trouble by intervening with a sort of chilly velvet-glove touch.

We wanted to know, with all due deference, and of course without infringing professional ethics and all that, he smiled, how the skilled analysts of the Stock Exchange arrived at their results. A miracle of esoteric scientific evaluation, doubtless; perhaps mere laymen might be allowed just a glimpse before venturing into big-money investments?

The broker's ears practically twitched at this tempting allusion. 'You know my methods, Watson; apply them!' he quoted reminiscently, and produced his big weekly share index. 'No magic wand stuff, gentlemen; just knowing how to use these columns, particularly the P/E one'.

The MD hitched his chair up closer and asked what the P/E's function was and by what yardstick it was measured. The broker laughed jovially and ran through the column headings just too rapidly to be readily followed. The MD was scientifically blinded by a rattle of dividends, earnings and yields, of indices, ratios and prices. He rallied gamely, questioned the meaning of each term in turn, and noted down the answers, but plainly he was out of his depth.

The broker let him scrawl away for several minutes before casually handing him a sheet of definitions, and blasted my counter-attack (a request to demonstrate the terms' significance by reference to the balance sheet under scrutiny) by explaining that he left that sort of routine stuff to his assistant. They'd put a write-up in the post for us right away, that would make everything clear . . . anyhow, the dividend yield ratio surely spoke for itself.

Going home the MD spoke again. 'Old school chum, J.J. is on the board, you know, but a chap in the club said last night he'd been caught short recently. I won't buy, I'll sell.'

Thus are great decisions taken.

Modern Auditing

Successful Two-day Course in London

ALL accountancy practices, whatever their size, are facing the common problems of increased salary costs, shortage of qualified staff, changes in clients' organization and methods, and an increased willingness by clients to resort to the courts with 'negligence' claims. Introducing the London and District Society of Chartered Accountants' 'Modern Auditing' course last week, Mr M. R. Harris, F.C.A., traced the development of audit practice and techniques over the past 80 years. Prior to 1930, the emphasis was on the detection of fraud and errors, whereas the audit approach now includes the use of procedural tests wherever possible in place of vouching, an increased use of 'system' letters to management, and consideration of areas in which profitability might be improved.

The course objectives included the encouragement of a business approach to auditing.[1] In Australia, the *Pacific Acceptance* case (*The Accountant*, April 23rd, 1970), had imposed upon auditors the duty of reporting adequately to management on system weaknesses, in addition to the statutory report to shareholders.

Organization and control

Mr A. M. Scrutton, F.C.A., suggested that all but the smallest audits would benefit from proper organization and control.

The letter of engagement should be reviewed to ensure that it reflects the current terms of engagement. Additional services can be organized and controlled by the preparation of time-tables and work programmes, and a pre-audit meeting held with the client before work commences to deal with (*inter alia*):

(*a*) The client's current business situation;
(*b*) Any outstanding audit points from previous audit;
(*c*) Arrangements for auditor's visits; and
(*d*) Arrangements to discuss audit points.

The advantages of client time-tables and work programmes may include improved allocation of audit staff, reduction in time spent by client's staff on preparation of accounts, increased attention to the extent of the tasks involved, and improved marshalling of tasks in order of priority. An audit plan should be prepared before work commences to record the arrangements made to achieve the business approach to the audit.

Mr P. J. Hughes, F.C.A., a member of the Society's committee (*centre*) in conversation with Mr A. N. Bass, F.C.A. (*left*), and Mr E. Bostock, M.A., F.C.A.

Audit documentation

Mr P. A. Davis, B.A., A.C.A., began by quoting from St Matthew's Gospel: 'By their fruits ye shall know them' and 'A tree which beareth corrupt fruit is cut down and cast into the fire'. An auditor's 'fruits', said Mr Davis, were usually paper, and if those fruits were corrupt he might well be cast into the fire of a negligence action or of the Bankruptcy Court.

The object of audit documentation is to record and demonstrate the steps which have been taken by the auditor to enable him to form an opinion on the accounts. This object is applicable to the audits of all clients.

Working papers should indicate the work done not only by the audit team but also by the client. Although the requirements of each auditor and the circumstances of each audit differ, a degree of standardization in both content and presentation of working papers within a firm is desirable.

The suggested contents of a current audit file should include copy of accounts, audit summary, audit programme, record of tests and weakness follow-up.

Internal control

It is his examination of the client's systems of accounting and internal controls which enables the auditor to determine whether he can rely upon the accounting records. Dealing with this aspect, Mr A. W. G. Earle, F.C.A., stressed the importance of ascertaining and recording the system, not only to assess it and to design the audit programme, but also for subsequent audits. This avoids asking the client's staff the same questions as last year, which is a constant complaint against auditors!

As alternatives to narrative notes, systems could be recorded by way of flow charts or internal control questionnaires (ICQ). Flow charts can say quite a lot in a little space, once the symbols have been mastered, but may be complicated to prepare and are not complete on their own.

[1] Mr Harris presented a paper on 'The Business Approach to the Modern Audit', to the English Institute's 1969 Oxford Summer Course (*The Accountant*, July 12th, 19th and 26th, 1969).

A problem between sessions: Mr A. M. Scrutton, F.C.A. (*left*) and Mr P. A. Davis, B.A., A.C.A.

An ICQ, if too rigid, may lead in turn to a mechanical form of audit.

The course papers included a specimen questionnaire, based on a number of key questions such as 'Can liabilities be omitted from the accounts?' and 'Can fixed assets be acquired without proper authority?' Each key question in turn was supported by detail questions designed to give background information or to identify the strength of the controls.

Flow-charting

The preparation and use of flow charts was covered in greater detail by Mr P. J. Rutteman, B.SC.(ECON.), A.C.A. Flow charting is appropriate where the system becomes complex and other forms of recording the system are unwieldy. It is not appropriate where no internal control exists, e.g., in very small businesses, or where the systems are obviously very weak or flexible. Borderline cases are where the system is subject to frequent change or is about to be substantially revised.

It is easier to draw rough charts first in order to plan the layout of the final chart. In obtaining the information, two approaches may be used:

(*a*) Speak to a person with overall knowledge of the system, e.g., the chief accountant. The danger is that this may be how the system is supposed to work, not in fact how it does work.

(*b*) Trace a few sample transactions through the system questioning the individuals concerned with each operation.

It is important to ensure that all alternatives are charted. Specimen documents should be obtained and a note made of the volume of transactions against each document.

The completed charts are used as a basis for evaluating internal controls and determining suitable audit tests, to obtain a rapid understanding of the system in future years, and to explain systems weaknesses to the client.

Detailed audit tests

Mr Rutteman returned to the platform on Friday morning, when he emphasized the need to have regard to the strengths and weaknesses of the system of internal control in devising audit tests; to form a view as to the significance of any weaknesses; to take appropriate action where a weakness could possibly have an effect on the true and fair view of the accounts; and to draw proper conclusions as a basis for the determination of both the audit approach and the extent of tests.

Transaction tests relate to those areas evaluated as strong. Their purpose is to establish that the important controls were in operation throughout the period under review and that the auditor is therefore entitled to place reliance on the strength of the system. A transaction test differs from a procedural test because it refers to a larger number of transactions, but checks only those control features that are fundamental to the system.

Weakness tests are designed to discover the effect, if any, of a controls weakness. They may relate to areas initially evaluated as weak or to areas where apparently strong controls have been found not to apply in practice. In either case the effect of the weakness must be reviewed first to establish whether or not it is likely to lead to material error in the final accounts. If material error can occur, then tests must be carried out to determine whether or not material error has occurred.

Sample approach

Mr P. A. Davis's second paper included two amusing illustrations of the hazards of sampling by personal judgement and by random selection. Random selection, he said, does not include haphazard personal choice, nor is statistical sampling 'a panacea for all professional ills'. The essential element of statistical sampling was the mathematical evaluation of the results of a random sample, and offered considerable scope as an audit tool for the future.

The course documentation included a number of specimen flow charts, questionnaires, working papers and correspondence. There were also two group sessions in which the participants had to evaluate a company's control systems from a flow chart and supplementary information, devise suitable transaction and weakness tests, complete the 'action' column of a weakness follow-up sheet and list points for inclusion in a report to management.

Mr A. J. Hardcastle, F.C.A., leader of group A (*centre*), with two of the speakers: Mr P. J. Rutteman, B.Sc.(Econ.), A.C.A. (*left*), and Mr A. W. G. Earle, F.C.A.

Common Market Membership

Implications for British Industry

by G. C. MASON,
Assistant Director, The Confederation of British Industry

'It appears to me beyond a doubt that sooner or later we shall arrive, like the Americans, at an almost complete equality of conditions.' When Aléxis de Tocqueville wrote these words 150 years ago, he spoke of political relations between men in Europe, but transposed into the realm of economics his forecast remains just as topical, for the European Community aims at equality of conditions throughout the area it encompasses.
The objective is to permit ultimately the free movement of goods, services, men and capital within a common legal, fiscal and monetary framework that will encourage the best allocation of resources. In short, the thought behind the Community is that its members should jointly create an economic union on the scale of the United States with a corresponding potential for the creation of wealth.

I HOPE I will be forgiven for having begun with a little theory, but without it there can be no understanding of the purpose and direction of EEC policies and, in my view, no firm basis for judging whether British industry might benefit from entry. Unless one grasps the nature of the economic union which the Rome Treaty prescribes, there is every risk that one will ally oneself uncritically with those who oppose entry on the implicit assumption that neither Britain's existing commercial relations with the rest of the world nor the Community will change.

Equally, to form a balanced view of the negotiations and Britain's capacity to benefit from membership in the medium term, one should beware of the siren voices which suggest that the ultimate economic aims of the EEC may be realized tomorrow. To be swayed by either extreme of viewpoint is likely to result in a wrong judgement of what acceptable terms of entry might be and lead to a false conception of the future for which companies should now plan. It might be helpful, therefore, to look at what is beginning to emerge from the negotiations in Brussels and to examine the consequences for industry, and also to review the work being done and decisions taken in the Community which will determine its longer-term future that Britain might share.

Britain's approach

The starting point of the negotiations was that Britain should accept the Rome Treaty as it stood and all that the Six had previously agreed on to put it into effect; in other words, we have to adapt to the Community, and the substance of our discussions with the Six is how we are to fulfil this process. If we want to change the policies of the EEC, we will have to do it as a member.

At the formal opening of discussions in Luxembourg last June, Mr Barber, then Britain's chief negotiator, confirmed our acceptance of the Rome Treaty and the rules flowing from it and mentioned the financial regulations and certain Commonwealth matters, such as New Zealand's dairy exports and the position of sugar producers in the area, as problems of special concern. Out of these, I will only deal with the financial regulations, not because the Commonwealth issues are of little importance, but because their implications for British industry are bound up with the wider questions raised by acceptance of the Common Agricultural Policy (CAP).

The British Government's approach to the negotiations is that it must secure transitional arrangements which will allow industry to get at the benefits of entry quickly. In this way, so the argument runs, the economy should grow fast enough to meet the resource and balance of payments costs in the early years of membership that will arise from paying more for our food and being a substantial net contributor to the EEC's central budget.

Translated into concrete terms, this means that our negotiators have tried to secure a rapid lowering of industrial tariffs between ourselves and the Community. Provisionally, for each element of the negotiation will only be finally decided when the package deal on the main issues has been settled, it has been agreed that tariffs will be cut by 80 per cent over the first three years of a transition period of five years. Conversely, our negotiators have been trying to ensure that we align our food prices on the higher ones of the Community at an even pace or one which slowly gathers momentum over the five years permitted for the transition, in order that industrial costs should not mount too rapidly whilst companies are building up or strengthening their marketing and production facilities in Europe.

The changes in tariff arrangements will have complex effects. If the reductions are made as now provisionally settled, by the end of the first year of membership (which could mean the end of 1973) tariffs could be cut by 40 per cent at the frontiers between the Six and ourselves. Apart from greater opportunity to compete on the markets of the Six, the lowering of our duty levels against them will mean

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greater competition on our domestic market – and the chance for British manufacturers to switch to cheaper sources of components.

At the same time three other consequences will follow. The first is that we shall lose our preferential position *vis-à-vis* EEC suppliers on the markets of Ireland, Denmark and Norway, as well as on those of other EFTA countries who achieve membership or some form of association with the Community. This loss will be relatively small in the Scandinavian countries, for on many items the EFTA preference is not great. The second and third effects flow from the requirement that we move our tariffs both against privileged (Commonwealth preference) suppliers and other nations towards the levels set by the Community's Common External Tariff (CET).

Community and Commonwealth

In the case of Commonwealth preference area suppliers, they will see duties rise against their manufactured exports to our market, so British industry will experience less competition from these sources. Where our companies buy in raw materials from the Commonwealth, there will be little change in their costs as a result of our adopting the CET, for the Community has a tariff system which has a similar structure to our present one: most raw materials enter duty-free. However, there are a number of items on which the CET imposes a duty where the United Kingdom now does not, such as aluminium, newsprint, lead and zinc. To mitigate a possible rise in industrial costs our negotiators have sought a derogation from the CET on about a dozen items. If they are successful, the United Kingdom will effectively be able to import a certain tonnage of these materials each year either duty-free or at a reduced tariff. The other side of the coin to our adoption of the CET is that Commonwealth preference area countries will gradually eliminate most, if not all, of the tariff advantages they grant our exporters in their markets in relation to other foreign suppliers.

Estimates of the extent of this loss of preference and its effect on our exports vary greatly and are unreliable, for the last published survey of preference margins relates to material gathered ten years ago, and since then there have been two series of tariff cuts made as a result of GATT rounds which will have reduced their value. Suffice it to say that most preferences of any consequence are enjoyed by our exports to Australia, New Zealand, Canada and South Africa, and that the average margin of preference is likely to be two or three less than the six and a half percentage points that were the average established in the survey.

The last consequence of Britain adopting the CET is that some imports coming into our markets from non-Commonwealth suppliers will bear lower duties than now. This is because our most favoured nation (MFN) tariff, the one we levy on imports sent by countries with whom we have no preferential trading relationship, tends to be on average higher on most items than the CET. The arithmetic average of our MFN tariff is just over 10 per cent; the CET level runs at about 7½ per cent. So some goods coming in from, say, America and Japan will have a lower barrier to cross.

Effect of tariff changes

What will the effect of these tariff changes be on our balance of payments once we have accepted the obligations of EEC membership in full? The CBI has estimated that our trade in manufactures might benefit to the tune of £100 million after five years, if full advantage were to be taken by industry of opportunities for greater scale and specialization in a large European market to which we would have guaranteed tariff-free access.

British industry's capacity for securing these benefits will be conditioned substantially by the arrangements made for our adoption of CAP and the regulations which govern the Community's central fund. Some 95 per cent of this fund, it might be added, is currently devoted to financing the CAP.

Looking at the impact on the cost of living of higher food prices which the CAP will bring, we have to remember two things: first, that the increase in prices will be spread over about five years; next, the extent of the rise will be set by the level of British prices *before* entry and the level of Community prices they must reach at the end of the transition period. Neither level is static. The British Government White Paper published last year calculated that the increase in food prices would be between 18 and 26 per cent, equivalent to an increase of 4 or 5 per cent in the retail price index. The CBI took a rather more optimistic view and expected a lift in the retail price index of between 2 and 4½ per cent.

Since these estimates were made, however, plans have been announced for Britain to move over to a system of agricultural support more closely akin to that of the CAP. This is likely to mean an increase in some food prices this year, so that effectively the process of alignment on EEC prices will be spread over a greater number of years. The upper peg of the EEC target prices may also be moving upwards, for inflation has been eroding the return to Community farmers from target prices which have remained static for a few years and there is strong pressure for increases for some commodities.

At the time of writing it is wellnigh impossible to make a reasonably precise calculation of likely effects of the CAP on the British cost of living, but my personal guess is that a 1 per cent increase annually over the five years' transition period would not be too far out.

Financial commitments

The balance of payments consequences of the CAP, though they would affect industry indirectly, are potentially more serious, for the amount we have to transfer across the exchanges will largely determine the direction of home economic policy. What Britain obviously could not contemplate would be a size of burden that meant continuing deflation of the home economy. In these circumstances industrial investment would be held back, and the adjustments which might have to be made in the structure of industry and employment and in the cost of living would be difficult. More basically, without extra economic growth Britain would be a net loser through entry, since she would not be achieving a higher national output to compensate and outweigh the transfer of resources that would arise from having to make contributions to the Community's central fund. This is why the financing arrangements are the key issue in the negotiations; the crunch has now come on this problem in Brussels with Mr Rippon making a proposal for the British contribution, to which the Six jointly have not yet responded.

To make some sense of the arguments advanced on both sides of the negotiating table in terms of the British balance of payments, one must look at the arrangements the Six have made for financing the Community's common budget and at the uses to which the funds are put.

Up to last year, the Six had a number of different

common budgets to which they contributed according to percentage keys that reflected the economic weight of each member-state in the Community's gross national product. The main exception of method lay in the financing of the central agricultural fund (FEOGA); here the member-states handed over 90 per cent of the variable levies they collected on imports of foodstuffs from outside the EEC. Any shortfall in the fund's budget was made good by contributions from national exchequers that were determined by the weighted key mentioned earlier.

The significance of this financing arrangement was that it bore heavily on any member-state which chose to import food from outside the EEC. It is a principle that has been carried forward into the new financing arrangements which were put into effect this year for the first time.

The first point to note about the new financial arrangements is that they will provide revenue for all the common policies to which the Six subscribe (with the exception of aid to the Community's associated countries in Africa): agriculture, the Social Fund, food aid, Euratom, the Commission's administrative expenses. Next, the idea is that the Six will gradually move to a system ('automatic financing') whereby the Community will raise its revenue in the form of certain types of taxes levied directly on them. From 1975 these taxes will consist of all variable levies and customs duties (minus 10 per cent to cover the cost of collection by the member-states), so that a country which imports heavily from outside the EEC will be a major contributor, plus up to 1 per cent of the rate of value added tax (VAT) levied in each member-state.

However, the Community will not levy its taxes quite automatically until the beginning of 1978; up till then a fairly complex formula has been adopted that will ensure that no member-state raises or lowers its contribution by more than one or two percentage points each year, as the Six progress towards the automatic financing system.

Transitional arrangements

In negotiating her own transition arrangements towards this system, Britain is concerned that her net contribution should not be such that it will involve a large transfer of resources or, what is more important in the short term, impose a heavy burden on the balance of payments. The British Government has to look at three things in deciding what might be acceptable transitional arrangements: the likely size of the Community's budget each year up to the end of the decade; the way in which it may be allocated for financing the various common policies; and the method by which the EEC's revenues are to be raised.

Mr Rippon's statement to the House of Commons on December 16th last did not reveal all the assumptions made by the British Government about the future size and shape of the enlarged Community's budget when it made its proposals on financing to the Six.

We do know that the Community's budget is expected to rise to about $4,500 million in 1977. It is likely that a substantial proportion of this sum, perhaps as high as 90 per cent, will still be devoted to agriculture, from which Britain could expect little return since she has a small but highly efficient farming sector which needs neither subvention nor reform on a scale comparable with its counterparts in the Six. So Mr Rippon has suggested that Britain might begin with a contribution of 2½ to 3 per cent, and work up to one of 13 to 15 per cent at the end of five years.

In balance of payments terms this proposal would mean a net transfer of £30 million across the exchanges in 1973 and a payment of £140 million or £180 million in 1977. Mr Rippon also asked for another three years over which our contribution could only move by 2 per cent a year towards the full automatic financing system. These terms have been presented as fair to the Six by the justification that under either of the two percentages proposed for 1977 we should be carrying a load roughly comparable to that borne by Germany, the member-state nearest to us in economic size and structure.

Mr Rippon has also asked for a special review procedure that could be invoked after the transition period was over, if any member-state got into difficulties as a result of the EEC's budgetary arrangements. A reply which might firmly show how far the Six will go to meet us is still awaited. The big question for Britain is to know whether we can afford these costs and, if so, will the longer-term benefits justify our incurring them? The answer to this must chiefly lie with industry by which the economic benefits must be secured.

It was argued by Mr Jenkins, when he was Chancellor of the Exchequer, that if entry into the EEC lifted Britain's growth rate by ½ per cent above its normal trend, we should, by 1977, be generating £1,100 million of extra resources which would pay for the worst possible (and most unlikely) burden that has been forecast as stemming from membership during the transition period. How likely is it that industry will generate the most substantial part of this increased growth?

Prospects for industry

First of all, industry will have the prospect of a steadily growing market which will provide a favourable climate for investment. Over the last decade or so, British industry has had to live with stop-go, with a probability (which has become ever stronger in recent years) that after a short period of time the Government will adopt deflationary policies as a result of balance of payments difficulties. Such an outlook has inhibited industrial investment, so that our productivity has grown much more slowly than in the main industrial countries and sufficient capacity has not been available when home demand has been allowed to move ahead. Stop-go has become a self-reinforcing process.

Low productivity and a slow growth of capacity have meant that we have been unable to absorb rising wage costs as successfully as many of our competitors on exports markets and that, when our own economy is booming, we can neither maintain our volume of exports nor maintain market share against foreign suppliers in meeting our own home demand. The existence of markets only a short haul away to which British companies will have secure tariff-free access will in time provide gradually what will become an extension of the home market, so that there will be a greater incentive to invest in greater capacity and more productive plant.

Apart from a larger, more steadily growing home market, industry will have the opportunity for greater specialization, and in some sectors the chance to achieve economies through the use of the optimum size of plant and the rationalization of marketing and distribution arrangements. More particularly in the high technology sectors, the existence of a wider market will permit the scale of research and development expenditure which is required to stay in business against American competition. High technology often means high risks and accordingly implies a size of company with sufficient resources and a large enough market to make radical innovation in products and processes feasible and commercially attractive.

Does the experience of the Six suggest that this sort of benefit will be available to British industry? There is no doubt that the economic performance of the Six has been a good deal better than Britain's since the EEC began: the Community's gross national product increased at an average of 5·4 per cent a year between 1958 and 1969. But how far is one justified in saying that this achievement is exclusively the result of the creation of the Community?

No one has been able to isolate conclusively a 'Common Market effect' in the figures. Some will point to the fact that the Six grew faster before the EEC began (5·7 per cent a year, over the years 1954–58), but in the fifties they were rebuilding war-torn economies, so the increases start from a low base. Output per employee went up faster after the formation of the EEC than before: 4·1 per cent a year between 1954 and 1958, but 5·2 per cent a year between 1958 and 1969. However, over the latter period there was a big transfer of the labour from a largely inefficient agriculture into manufacturing industry, so one might expect higher productivity.

If one looks at the trends in specialization, the reverse to what theory would suggest appears to be true. A study by Major, Hays and Grunberger in the *National Institute Economic Review*[1] showed that, measured by individual country shares of trade between all Community members, on the whole the Six seemed to become more competitive in those products for which they had previously had a lower than average performance; and, conversely, to do worse in those items for which they had seemingly had a comparative advantage. However, one has to face the fact that the statistics examined cover for the most part a wide range of products in each category. Comparative advantage can reveal itself just as readily in a Community of highly industrialized nations in the form of specialization between countries in the manufacture of different types of machine tools, as it can in the shape of one member-state becoming a dominant supplier in chemicals and another in non-ferrous metals. In short, the statistical categories under analysis may simply have been too broad.

Against all this rather equivocal evidence one has to set down two plain but vital facts. First, industry in the Six asserts without reservation that membership of the Community has brought benefits and, in case any reader has a cynical turn of mind, has been saying this for many years, long before it might have thought of strengthening the Six Governments' bargaining position in negotiations with the applicant countries. Next, industry here, which after all has to do the job, has on two occasions (in 1967 and 1970) overwhelmingly supported Britain's entry, when the CBI has undertaken elaborate polls of opinion.

Potential developments

The last points I wish to make spring from the belief that we have to judge the Community not only as it now is, but as it may develop. Over the last twelve years, the main accomplishment of the Six has been to form a customs union in manufactures and agricultural products, but they are far from achieving the type of economic union which exists in the United States. The blueprints for furthering the process of economic integration are to be found in the plans for developing a comprehensive industrial policy and for creating an economic and monetary union.

Industrial policy consists of all those measures that need to be taken for companies to be able to operate freely in a market which embraces all the Community countries. A memorandum on industrial policy published by the EEC Commission in March last year showed, for example, that the member-states are far from constituting a single market. Public purchasing scarcely takes in suppliers in other member-states. France, which has the merit of being the only one of the Six to publish figures, placed less than 1 per cent of public sector orders with foreign suppliers in 1967. Varying standards still constitute a barrier to trade between member-states in items such as electrical goods, pharmaceuticals, food and cars. It is rare for a Community manufacturer to be kept out of one of the Six markets, but differences in specifications can mean higher tooling costs and shorter production runs.

Moving a company

The same Commission document also illustrated the obstacles of both a legal and fiscal kind to mergers and all kinds of investments across frontiers. Before a Belgian company can transfer its assets outside Belgium to merge with another company, it has to attempt the nearly-impossible task of getting the unanimous consent of all its shareholders. Moreover, in a number of member-states, before a merger can take place, a company must be liquidated and a tax is levied on the difference between the book and the actual value of its assets, which may make the operation impossibly expensive.

If companies are to be able to move goods and capital freely across the Community frontiers, it becomes increasingly clear that the management of economic policy cannot be undertaken with absolute autonomy within them. The level of economic activity within one member-state reacts strongly on that obtaining in its main trading partners in the Community. When companies can seek credit or capital across borders, interest rate and credit policy can scarcely be pursued in isolation.

Over the years the Six have made slow progress towards co-ordination of economic policy, but the shock of changes in the parity of the Deutsche mark and the French franc inspired the plans for economic and monetary union which is the logical conclusion to the movement set in train by the Rome Treaty. So we can look forward to the Community carefully and pragmatically building up the machinery and institutions for achieving steady and balanced economic expansion in every region within its frontiers, and minimizing the risk of disruption to industry through drastic changes in economic policy or in the conditions under which goods and money circulate.

Finally, in judging what the Community might become, industry cannot neglect the benefits that will accrue from its political bargaining power. Governments create the climate for international trade and investment, and in negotiating with one another their power rests in large part on their economic weight in the world. Whether in fighting against a resurgence of protectionism in the United States and elsewhere or bargaining in some future round of tariff negotiations within GATT, Britain will have a better chance of exerting influence as the member of an enlarged EEC than on her own.

In sum, a judgement of the impact of EEC membership on British industry must always be on balance. It will be very surprising if the terms which come out of Brussels present a clear-cut case for or against entry. In essence, we shall be faced with an investment decision: an estimate of certain and immediate costs which are the price of opportunities that we must seize with our own enterprise.

[1] 'Another Look at the Common Market', November 1970.

Computer-based Costing Systems

by CLIVE J. FARMER, A.I.M.T.A.

When computers first became widely used for commercial purposes, costing applications accounted for a substantial part of their usage. Since those days a great deal of progress has been made in all aspects of computing. This article discusses the development of computer-based costing systems, commenting on their current effectiveness, and suggests some possible future areas of development.

INITIALLY, the majority of organizations who acquired computers believed that they had found a method of performing routine clerical work more efficiently and cheaply than by manual methods. Little use was foreseen for computers other than as powerful adding machine/typewriters or more efficient punched-card processors.

For this reason the applications chosen for computerization at that time had certain common characteristics. The data to be processed involved large volumes, and was straightforward to define and control. The processing itself was sometimes lengthy, though rarely complex. Much of the work consisted of calculating, collating, sorting and listing. The areas of the organization involved were usually those containing staff trained in clerical functions and routine information handling. Thus accounting-type applications figured largely in early computer development. Major innovative thinking was noticeably absent, many existing manual or punched-card-based systems being transferred to the computer with little or no basic alteration. The benefits sought were essentially reduction in clerical effort, increased processing speed and efficiency and the ability to identify and report exceptions from simple criteria.

In retrospect, it is doubtful whether applications of this nature were often economically viable. They did, however, provide a good training ground, and enabled organizations to gain experience, sometimes traumatic.

Progress to date

It is beyond the scope of this article to describe in detail developments in computer technology since those early days, but mention must be made of some which are of particular significance. First, computer hardware has become much more powerful and flexible, and cost/performance ratios have increased tremendously. Much more data can now be stored and is more easily accessible. However, methods of data capture have only recently shown significant improvements, and many organizations are still relying on antiquated concepts.

Secondly, there have been major qualitative and quantitative increases both in software and available technical expertise. This means that systems can be designed and developed more quickly and reliably.

Lastly, but of particular importance, management's view of the role of the computer is undergoing a radical change. No longer is it regarded merely as a means of replacing or supplementing routine clerical effort. In order to function efficiently, and particularly in order to make informed and sensible decisions, modern management must have access to an increasingly large and complex pool of information on all aspects of the organization's activities. Almost invariably the computer is now the sole means of achieving this. It is therefore fast becoming an essential management tool and an integral part of the corporate information system.

The current situation

Against this background the typical costing system in current use must now be examined from two particular points of view. The first must determine whether adequate use has been made of developments in the supporting computer technology. The second examines the effectiveness of the costing system as part of the corporate information system (although many cost systems have other uses, of course, for example in the provision of data for wage calculations or customer invoicing).

It is often apparent that many current costing systems still show signs of their ancestry. For example, their processing and reporting structure tends to be hierarchical, reports typically being built up as summaries of every detail processed. Thus the early enthusiasm for the computer's ability to handle masses of data is still recognizable. Admittedly the use of exception reporting is now commonplace, but the criteria used tend to be generalized and relatively inflexible. Collecting and processing data is expensive, and it is quite feasible to give users the opportunity to identify particular areas in a dynamic fashion and have costs collected and reported only for chosen areas.

The relative lack of progress in data capture techniques has also encouraged the concentration of effort on capturing those costs which appear simple to define and calculate. Thus, many designers of cost systems have succumbed to the temptation to concentrate on those aspects of cost which are historical and quantifiable without the application of judgemental decisions. This weakness can be seen in systems which report costs

against budget, avoiding the question of commitments and the ratio of budgeted expenditure against achieved objectives.

Another criticism which has frequently been levelled at cost systems, in common with others, is that sophisticated and highly accurate techniques are applied to data, the accuracy of which is suspect. Data extracted from time-sheets is one notorious example, of course. There is no simple answer to this problem, but any weakness should at least be addressed by gearing processing accuracy to data accuracy and by making explicit reference to estimated levels of data validity on user reports.

The above criticisms certainly do not invalidate current cost systems as means of making simple performance comparisons and achieving some level of control on expenditure. They may well be a reflection of the fact that such systems were developed early and improvement and enhancement is now taking second place to new development in other areas. Such criticisms could largely be met by fuller use of available techniques without the need for major conceptual changes.

Isolated aspects

More far-reaching weaknesses become apparent when cost systems are related to management information system concepts. One serious weakness is that in two senses, cost systems function in comparative isolation no doubt because costing data is traditionally considered the province of the cost accountant, or his equivalent. So although many cost-oriented reports are submitted to line managers, they still reflect accountancy-based requirements such as, for example, cost reports being based on a rigid periodicity.

There may be a need for this in order to provide a valid means of cost comparisons and also as a method of providing disciplined data processing. It is questionable, however, whether such reports are an adequate approach to reporting continuous or continual activities. Isolation in the second sense is exemplified by the fact that costs are only one aspect of normal industrial or commercial activity. Yet cost reports are often regarded as if they presented the complete picture. Even in cases where other computer systems (e.g., production control) are in existence, cost data is frequently collected and reported in complete or comparative isolation. Thus the grave danger arises of cost reports showing a different situation from any physical activity reports. Situations can also exist where, for example, a manager is presented with a detailed description of the costs of manufacturing some item. If the item is a component of some large product, information on the costs of making the item too early or too late may be much more relevant. So the much wider concept of attaching a cost, albeit on a broader and less tightly defined basis, to any relevant activity now becomes involved.

It must also be stressed that cost reports do not necessarily have to be presented in money terms. Material qualities, man or machine hours can be more relevant to line management.

One statement frequently made in the context of cost systems is that there is no point reporting on costs unless they are controllable. This argument is certainly fallacious, since even though the costs themselves may not be immediately controllable there is always some way in which management can eventually respond to the situation. For example, a company forced to pay a large wage increase may have no immediate method of preventing labour costs increasing. A good system could, however, identify products with a higher than average labour cost element which might be phased out.

A frequent problem encountered in the use of cost reports is the difficulty of interpretation. Even if costs are presented clearly and accurately the causes of reported variances may be difficult to determine. It would certainly enhance the value of reports if anticipated variances could at least be indicated, or preferably compared with some kind of standard. Practical examples of this are performance variations due to learning curves, and the conscious acceptance of unprofitable or difficult business as a means to an end.

There is still much useful work to be done in applying costing systems to 'white collar' work, (which in many organizations is frequently virgin territory), although this type of environment is a challenge to the ingenuity of system designers,

Two main themes are thus apparent. The first is that cost accountants and system designers should maintain close co-operation with their colleagues in other disciplines when both cost and physical control systems are in course of design. The avoidance of the frequent dichotomy between financial and other systems is a very worth-while goal. Secondly, when cost systems, and particularly cost reports, are being designed, comments and suggestions should be required from all relevant management. Ideally management will take the initiative in demanding information in the form most appropriate to their particular function.

The future

It is tempting to talk of sophisticated systems based on technological advances which will undoubtedly be made. The development of remote access facilities will undoubtedly make data more immediately accessible. But the main benefits will undoubtedly be found in increased understanding of the role computers can play in management and decision-making. This is likely to come about in two ways.

Firstly, as has already been stated, cost systems should provide data in a form more appropriate to managers' needs. The development of the data base, an integrated pool of all relevant corporate information accessible on an *ad hoc* inquiry basis, and capable of showing relationships and comparisons in terms of data, will provide the eventual framework for this.

Secondly the currently available generalized software packages offering various financial modelling and prediction facilities will be developed towards specific applications. To be of full value they will make use of the company data bases which will then be available.

Conclusion

Many and varied criticisms have been levelled at the current status of cost systems and various suggestions made on ways to meet those criticisms. It nevertheless must be stressed that the provision of detailed cost information, in whatever form, is an essential part of any corporate information system. In the future such information is unlikely to maintain its former dominant position, as the importance of the many other areas becomes understood. Co-operation and integration will be the challenge the future holds for the cost system and its designers.

Accounting without Tiers

Need Some be More Equal than Others?

by F. A. CALLABY, F.C.I.S., F.A.C.C.A., F.C.W.A.

The breakdown of the scheme of merger between the six accounting bodies has left behind it a number of problems which the individual bodies are trying to solve or come to terms with.
One of the most difficult decisions to make is whether the profession or individual bodies should adopt the two-tier system of membership. The importance of this decision to the structure of the profession, to its public image and to the boys and girls who are its potential students cannot be over-emphasized

FROM an examination of the authoritative statements made by individual accounting bodies and listening to the arguments advanced by prominent members of the profession, there can be serious doubts as to the desirability of introducing a two-tier system.

The failure of the recent attempt to rationalize has made accountancy very sensitive to outside opinions and to comparison with such other professions as engineering, medicine, law, or architecture. From this has come an increasing desire to improve the image of the profession, to become respectable and to join other professions in insisting on a graduate entry. In practice this idea has presented serious difficulties.

A learned profession

On the one hand, accountancy bodies are claiming that, to be a 'learned' profession and to meet the increasing 'intellectual demands' made upon its members by the present technological age, their members require a better general and technological education. On the other hand, it has been recognized that 'a large part of the work of accountancy is of a routine and technical nature which does not make high demands on the competence or qualities of professional integrity' required in an accountant. From this reasoning it appears that two types of accountant are required, and logic appears to indicate a two-tier system. But is this the true solution?

It has been suggested in a Scottish Institute publication that the small accountancy practice could not afford to employ graduates. Another chartered accountant in an authoritative position said that the English Institute could not sell the 'two A-level entry' concept to its members unless the two-tier system was also introduced.

The answer is clear enough. The firms of practising accountants need hewers of wood and drawers of water – in fact, the technician type of accountant who would constitute the second tier. Many practitioners believe that to upgrade the entry standard to graduate or two 'A' levels too rapidly may reduce the supply of articled clerks. Youth employment officers have confirmed that these beliefs and attitudes are common among practising accountants.

As the apprentice chartered accountant today becomes, in many cases, the company accountant tomorrow, it is surprising that at this point no one questions the interest of industry and commerce.

Needs of industry

Does industry and commerce want two grades of accountant? In this face-saving exercise of graduate or two 'A'-level entry, there is a large amount of 'keeping up with the Joneses'. Accounting bodies are now fearing to lose out in the race for respectability if they fail to attract the higher level entrant and become classified as 'second-tier bodies'.

The whole concept of the two-tier system appears

too rigid and makes no provision for normal human behaviour. Accountants may be good at accounting, but they appear less comprehending and effective in the field of education, training, and the behavioural aspects. Do they really believe that members and non-members will rest easily together in one body? A non-voting 'affiliate' is an affront to responsibility and democracy.

To quote the views of one Scottish chartered accountant, 'who will find it acceptable to be labelled as sort of "donkey" with the bright hope they may be aspiring to full membership and ultimately emerge from their second-tier chrysalis to a glorious member-butterfly?'

Arbitrary selection

A more serious defect of the proposed second-tier scheme is that selection between the two grades is influenced by educational performance in the teenage years. There are those who by sickness, family conditions, or late development have failed to receive the benefits of further education. Are these educational defects to be the sole basis for judgement without consideration of factors such as personality, determination and courage?

As one headmaster of a large comprehensive school said: 'The rejection of five 'O' level students to student membership savours of social and educational apartheid'. In fact, it was only moving the eleven-plus examination four or five years onward.

Bearing in mind the number of top-level appointments held by cost and works, and certified accountants – many of them men without special university qualifications who decided to become accountants in their 20s or 30s – then the whole concept of the two-tier system is socially inept, wasteful of human skills and out of tune with democratic principles.

Complaints have been made that students with 'O'-level or equivalent entry qualifications have shown a higher examination failure rate. In many cases, these students are the least privileged and are making do with little support from their employers, with correspondence colleges or part-time evening classes and possibly working under every conceivable business or domestic difficulty. The failure rate may not be surprising, but those who do succeed probably need to show a greater tenacity and will to win than those who have had an easier road.

Second-class accountants

What is yet to be stated is the attitudes of industry to the two-tier system. There will no doubt be business firms prepared to get accounting on the cheap by employing second-tier accountants. As a whole, however, industry and commerce when requiring an accountant want a good one, not a second-class one.

The introduction of second-tier accountants to industry must surely reduce the status of accountants generally. To expect company managers to differentiate and evaluate between a first and second tier, as well as the existing variety of accounting bodies, would be asking too much.

A more satisfactory and constructive approach to the problem would be not to restrict intake, but to improve the educational facilities. It is widely held that educational facilities available for the training of accountants are inadequate, whether they be at a university, polytechnic, or technical college.

The accounting bodies could with advantage take a closer interest in educational facilities, and might give considerable help by bringing some measure of standardization in their syllabuses, especially in the earlier stages. This would not only help the colleges and polytechnics, but also improve facilities for students.

With improved education at all levels, the accounting bodies could encourage entry through the universities, graduate conversion courses, two 'A' levels and the nine months' course, whilst at the same time offering adequate and proper facilities for those who wish to bridge the gap from five 'O' levels to membership.

It is the task of the accountancy bodies to ensure that their members have adequate technical knowledge for the tasks they undertake as members of a profession. The accountancy bodies should not, and in fact are unable, to make other forms of judgement.

What matters

General education and experience do not begin and end with university; technical knowledge does not end with passing the final examination. The final determination whether an accountant is one who leads or is led, who is dominant or submissive, who succeeds or fails, does not depend on factors within the control of the accountancy bodies.

At this point it is worth considering the recent pronouncements by Mr J. Sterling Livingstone, Professor of Business Administration at the Harvard Business School. He expresses grave doubts about graduateship education and its application in business and makes the following points: first, that academic success and business achievement have relatively little association with each other; and secondly, that over-reliance on scholastic learning ability undoubtedly causes business organizations to reject a high percentage of those who have had the greatest potential for creativity and growth in non-academic careers.

Let us, therefore, hesitate before dividing members into two tiers. Strengthen examinations by all means, introduce postgraduate training, streamline the different types of accountants to function with appropriate examination syllabuses, but don't try and play God by dividing accountants into masters and myrmidons. Whilst the two-tier system might suit parts of the profession, it would not be to the advantage of anyone else.

Courses and Conferences

MORE and more interest is being displayed in the post-qualifying courses and conferences held by the accountancy bodies. Subject to such restrictive occurrences as postal strikes, applications to attend are in the main fully subscribed, and quite often over-subscribed, particularly when the event is a residential course at a university. A very full programme has been arranged by the English and Scottish Institutes in particular, and every opportunity is being given to members to update their knowledge of the latest accounting and management techniques. Indeed, all the accountancy bodies realize that accountants are increasingly being asked to introduce modern management systems and it follows that courses on management accounting and electronic data processing are considered essential for post-qualifying study. The chronological order of the following notes should assist readers to plan to their individual advantage.

May 17th–21st

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Practice Administration Course at North Berwick

A RESIDENTIAL course on 'Practice administration' to be held at North Berwick from May 17th to 21st, by The Institute of Chartered Accountants of Scotland will provide an ideal opportunity for practitioners to discuss improved administration methods in their offices.

New techniques in training, management of staff and the day-to-day management of practices will be considered, and the course will also cover such aspects as the financing of a practice and the staffing structure for clients' work.

May 25th–27th

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

Data Processing Course

THREE sessions dealing with management techniques, the audit and cost effectiveness of computer systems, and a business management exercise, form the basis of an intermediate course on management and data processing to be held by The Association of Certified and Corporate Accountants at the NCB Computer Power Training School at Cannock, Staffordshire, from May 25th to 27th. The course has been planned on the assumption that participants are familiar with basic computer terminology.

May 25th–28th

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Do you need a Computer? – Course at North Berwick

MANY factors have to be considered before a company can successfully use a computer. At this residential course to be held by The Institute of Chartered Accountants of Scotland at North Berwick from May 25th to 28th, an evaluation of the case for computer applications will be given, and the relative organizational and control problems discussed.

The course will be divided into three parts, the first comprising a series of lecture and discussion periods on, among other subjects, financing the computer, equipment available, project control and computer bureaux. The second will be concerned with two case examples in which the experience of users will be considered and discussed, and the third part of the course will take the form of a case study involving the application of knowledge acquired during the course.

June 7th–10th

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Computer Development Course at Brighton

UNDER the direction of Mr A. R. K. Hardcastle, F.C.A., there will be a residential course on 'Computer developments for management' held by The Institute of Chartered Accountants in England and Wales at the Grand Hotel, Brighton, from June 7th–10th. Hardware developments and their likely effect on the structure of systems will be examined, as will technical problems that arise in the implementation of these systems and the conversion of existing ones. Course members will be encouraged to discuss the management and personnel problems that developments are likely to create, and various methods by which these may be overcome.

June 7th–11th

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Taxation Training Course at North Berwick

A SERIES of papers on all aspects of direct taxation will be presented by a panel of seven lecturers at a residential taxation training course to be held by The Institute of

Chartered Accountants of Scotland at North Berwick, from June 7th to 11th.

The course is designed for younger members of the Institute in practice in the 25–30 age group and members outside this age group who have begun, or wish to begin, specializing in tax matters. The course will cover the development, application and implications of tax legislation, and technical problems concerning income tax, corporation tax and capital gains tax will be explained and discussed.

June 8th–11th

THE INSTITUTE OF MUNICIPAL TREASURERS AND ACCOUNTANTS

Annual Conference, Torquay

GENERAL sessions of The Institute of Municipal Treasurers and Accountants' eighty-sixth annual conference will be held in the Princess Theatre, Torquay, from June 8th–11th.

Following the presidential address of Mr Francis Stephenson, F.I.M.T.A., at the opening session, a paper on 'Cutting down our cities to size – a balance sheet for planners and treasurers' will be presented by Dr D. Eversley, Chief Planner (Strategy) GLC. Mr Patrick Jenkin, Financial Secretary to the Treasury, will address members at the closing session.

Papers at group sessions will include 'Local authority capital programmes' by Mr E. J. F. Lynch, F.I.M.T.A., Treasurer, Crawley UDC; 'The measurement of output of the public services', by Mr J. V. Miller, M.A., F.I.M.T.A., County Treasurer, Gloucestershire, and 'The finance of the Health Service', by Mr R. C. Sharphouse, F.I.M.T.A., Treasurer, North West Metropolitan Regional Hospital Board.

Social functions will include a reception and dance in the Town Hall and a golf competition; there will also be a special programme for the ladies.

June 12th

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

One-day Seminar in London

THE last of a series of one-day seminars held at Putney College for Further Education, London, by The Association of Certified and Corporate Accountants takes place on June 12th. The seminar has been arranged in conjunction with the Inner London Education Authority and a wide range of electronic data processing equipment – including punched-card machines, desk-top calculators, computer terminals and visible record computers – will be demonstrated.

June 16th–19th

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Tax Practice Course at Cambridge

A RESIDENTIAL course on current tax practice dealing with 'Estate planning – individuals, trusts and family companies' will be held at Churchill College, Cambridge, from June 16th–19th by The Institute of Chartered Accountants in England and Wales. A reasonable, but not advanced, general knowledge of the operation of the tax system will be assumed in those attending as the course has been planned to give practical guidance to general practitioners and to members of their staff who take an interest in taxation without claiming to be tax specialists. In conjunction with lectures and case studies there will be ample opportunity for group discussion and examination of particular points in depth.

June 18th–22nd

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Nineteenth Summer School at St Andrews

THE Summer School arranged by The Institute of Chartered Accountants of Scotland from June 18th to 22nd will be accommodated in McIntosh Hall and Abbotsford House, University of St Andrews.

A booklet containing full details of the School programme will be sent to all those attending at least two weeks before the commencing date. The papers will be briefly introduced by their contributors and will then be studied in discussion groups. At the final plenary session the contributors will answer questions from the groups.

Professor Edward Stamp, M.A.(CANTAB.), C.A.(CANADA), Professor of Accountancy, University of Edinburgh, will give an address on 'Price level accounting'; Mr Ian J. Fraser, M.C., Director-General of the Panel on Take-overs and Mergers, will speak on 'Accountancy and the merger movement', and 'Clear thinking about motivation in industry' will be the title of a paper to be presented by Dr Arthur F. Earle, B.SC.(ECON.), PH.D., Principal of the London Graduate School of Business Studies. There will be a fourth address, the subject and speaker to be announced later.

Leisure activities will include an optional car treasure hunt, a golf competition over the Eden course for the Summer School Golf Trophy, and a putting competition for the non-golfers. In addition, a 'smoker' will be held after the official dinner on the evening of Monday, June 21st.

June 21st–25th

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Management Course at Chartered Accountants' Hall

'CONTROLLING administrative overheads – the application of management techniques' is the title of a non-residential course to be held at Chartered Accountants' Hall from June 21st–25th by The Institute of Chartered Accountants in England and Wales. Under the direction of Mr W. E. Shaw-Taylor, F.C.W.A., A.C.I.S., it will be a practical course to give a good formal grounding in those management techniques which can be applied within any organization in order to increase administrative and clerical productivity; eliminate unnecessary clerical work, and establish controls to ensure the maintenance of improvements.

June 21st

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Audit of Advanced Computer Systems – Course in London

THE problems which confront the auditor when faced with information systems using advanced computer equipment

and techniques will be the subject of a one-day course to be held in London on June 21st by The Institute of Chartered Accountants of Scotland.

Primarily for members in practice, it will also be helpful for those concerned with computer control problems. The course will consider, through lectures and practical case studies, audit difficulties associated with optical character recognition, real-time applications, and integrated computer and disc-based systems.

June 25th–27th

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

Computer Appreciation Course

AS THE accountant's role in the field of management is increasingly influenced by fresh technological developments flowing from the communication and computing industries, The Association of Certified and Corporate Accountants is arranging computer appreciation courses for members who have had little or no exposure to EDP systems.

The next course will be held from June 25th–27th at the Bull Hotel, Gerrards Cross, Buckinghamshire. There will be talks on hardware, systems analysis and management services and control, and members will participate in exercises and case studies.

June 30th–July 4th

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Summer Conference at Christ Church, Oxford

'INTERNATIONAL business – the growing challenge' is the theme of the Summer Conference at Christ Church, Oxford, to be held from June 30th to July 4th by The Institute of Chartered Accountants in England and Wales. Mr John Davies, C.B.E., F.C.A., J.DIP.M.A., M.P., Secretary of State for Trade and Industry, will address members on 'The world-wide challenge to the accounting profession' and other speakers will be: Mr Marshall S. Armstrong, President, The American Institute of Certified Public Accountants, Mr Lance J. Smith, President, Canadian Institute of Chartered Accountants, and Sir Ronald Leach, C.B.E., F.C.A., Past President, The Institute of Chartered Accountants in England and Wales. The theme of the conference should be of interest to a wide cross-section of Institute members in its survey of international operations, and the extent to which accountants must react to the 'growing challenge'.

July 8th

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Computer Installation Course at Chartered Accountants' Hall

CALLED 'Computer installations review', lectures and group discussions in a one-day course held by The Institute of Chartered Accountants in England and Wales at Chartered Accountants' Hall on July 8th will help members to appreciate the need to review both investment in computer operations and also subsequent recurring maintenance expenditure.

July 8th–10th

THE INSTITUTE OF INTERNAL AUDITORS

Summer School at Leicester

SECURITY problems and effective audits, whether computer-based or otherwise, will be the subjects of lectures and syndicate discussions at the Summer School of The Institute of Internal Auditors at Clare Hall, University of Leicester, from July 8th–10th.

July 12th–15th

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Audit Practice Course at Nottingham

A RESIDENTIAL course on 'Current developments in audit practice' will be held at Nottingham University by The Institute of Chartered Accountants of England and Wales from July 12th–15th. The aim of the course is to identify objectives for all aspects of audit practice and to learn various ways of improving audit procedures and services to clients. Mr P. Granger, F.C.A., the course director, has arranged a combination of lectures with reasonable time for discussion, and a comprehensive case study embracing the subject-matter in three inter-related sessions – one on each day of the course.

July 23rd–26th

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Management Information Appreciation – Course at Cambridge

CHURCHILL COLLEGE, Cambridge, is the venue for a residential course on management information appreciation to be held by The Institute of Chartered Accountants in England and Wales from July 23rd to 26th.

The course will develop the concept of management information systems and long-range planning and a substantial amount of time will be devoted to group work on cases, including a full day's case study of a realistic business planning problem. Members can choose between categories of case study problems dealing with either the production or commercial marketing fields. The course will conclude with a case history of a computer-based management information system in a medium-sized manufacturing company.

August 27th

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Elementary Discounted Cash Flow – Course in Glasgow

FOR those accountants in practice and industry with an economic appraisal function to fulfil, an elementary Part I course on discounted cash flow to be held in Glasgow on August 27th by The Institute of Chartered Accountants of Scotland should be of considerable use and interest.

Designed to give participants an appreciation of the theoretical justification for new techniques and to illustrate potential applications in financial management, the course will include lectures on the economic background to investment, primitive capital budgeting, the DCF approach and measuring the cost of capital.

September 3rd

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Elementary Discounted Cash Flow Course in London

THERE is to be a repeat in London, on September 3rd, of the course entitled 'Elementary discounted cash flow' due to take place in Glasgow on August 27th. The economic background to investment, the DCF approach and measuring the cost of capital will be among the subjects.

September 6th–10th

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Estate duty course at North Berwick

ALL accountants are only too well aware that the subject of estate duty since the 1969 Finance Act has become exceedingly complex, both in the sense of statutory interpretation and in the computational aspects. The Institute of Chartered Accountants of Scotland is organizing a residential course on estate duty at North Berwick from September 6th to 10th to study the subject in depth.

Divided into three main sections: the law and theory; special cases, e.g., controlled companies and discretionary trusts; and planning ahead to meet or mitigate potential estate duty liabilities, the course will involve a high degree of participation by those attending through case studies, discussion sessions and 'tax workshops'. It is essentially a course for those accountants who already have a substantial knowledge of tax and who wish to derive a greater understanding and practical knowledge of estate duty work. A feature of the course will be discussions led by a panel of speakers.

September 8th–12th

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Summer Conference at Churchill College, Cambridge

'INFLATION – the accounting and social implications' will be the theme of the Summer Conference held by The Institute of Chartered Accountants in England and Wales at Churchill College, Cambridge, from September 8th–12th. As controversy has raged amongst academics, economists, union leaders, industrialists and politicians over all aspects of inflation, the conference will seek to highlight the particular problems of accounting for inflation without overlooking the social aspects. Professor G. H. Lawson, M.A.(ECON.), A.A.C.C.A., will speak on 'Cash flow accounting' and other speakers include Professor F. W. Paish, Emeritus Professor, London University, discussing 'The failure to account for inflation', and Mr H. Vermeulen of NV Philips Ltd, Holland, speaking on 'Accounting for inflation'.

September 10th

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Advanced Discounted Cash Flow Course in Glasgow

FOR those who wish to extend their knowledge of DCF, The Institute of Chartered Accountants of Scotland has arranged a course in Glasgow on September 10th to give participants a fuller working knowledge of the techniques. The content of the course will include the recapitulation of DCF principles, a short case study, equipment and replacement, cost of capital, and implementation problems and organization.

This course will be repeated in London on September 17th.

September 13th–18th

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

Cambridge Summer School

THE summer school of The Institute of Cost and Works Accountants will be held at St Catharine's College, Cambridge, from September 13th–18th. Lectures, case studies and discussions will be centred around the management accountant's concern with costs, prices and marketing.

September 18th–19th

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

Week-end School at York

PRICING policy and corporate planning is to be the basis of a week-end school programme from September 18th–19th, held by The Institute of Cost and Works Accountants at the University of York.

September 27th–29th

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Practical Techniques for Decision Making – Course at North Berwick

THE object of a residential course on 'Practical techniques for decision-making' to be held by The Institute of Chartered Accountants of Scotland at North Berwick, from September 27th to 29th, will be to examine current management techniques and to illustrate their practical use in decision making. There will be introductory lectures on each technique followed by a case study and subjects to be considered will include: statistical sampling, decision trees, linear programming and network analysis. Ample time will be allowed for discussion.

September 30th–October 1st

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

Investment Course at Edinburgh

THERE will be a course on 'Investment appraisal' for members of The Institute of Cost and Works Accountants at Heriot-Watt University, Edinburgh, from September 30th–October 1st.

October 1st–4th

National Taxation Conference at Bournemouth

AN ATTRACTIVE programme has been arranged at Bournemouth from October 1st–4th for those attending the twenty-first National Taxation Conference. Under the chairmanship of Mr Percy F. Hughes, Editor of *Taxation*, the conference is open to members of the accountancy profession whether in practice or industry, and to all those interested in the various phases of the law and practice of taxation.

There will be a mock interview between an accountant and an Inspector of Taxes to discuss agreement of figures on a company's shortfall assessments and at the business sessions addresses will be given by Mr T. A. Hamilton Baynes, M.A., F.C.A., on 'Valuation of shares in unquoted

companies'; Mr J. P. Hardman, A.C.A., on 'Migration – individuals and companies'; Mr James S. Heaton, F.C.A., on 'Recent legislation – Finance Act 1971', and Mr K. R. Tingley, F.A.C.C.A., on 'Capital gains tax – transactions in land'.

Social events will include a civic reception and dance given by the Mayor of Bournemouth and an eighteen-hole Stableford golf competition for the *Taxation* Challenge Cup. There will be a special programme for the ladies.

October 11th

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Increase Profits through Stock Control – Course in Glasgow

ACCOUNTANTS and others in industry responsible for either introducing or improving a cost sensitive system and members in practice wishing to advise on effective stock control should find of benefit the course arranged by The Institute of Chartered Accountants of Scotland on 'Increase profits through stock control' to be held in Glasgow on October 11th.

Lectures and case problems will be used to illustrate the following features of stock management: economic ordering, need for stock analysis and classification, customer servicing, stock value, and control.

October 13th–15th

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Modern Auditing – Course at North Berwick

PARTICULARLY appealing to auditors with a supervisory function, as well as for auditors at all levels of responsibility, will be a residential course at North Berwick on 'Modern auditing' to be held by The Institute of Chartered Accountants of Scotland from October 13th to 15th. Audit practice will be reviewed and consideration given to the application of modern techniques.

The content of the course will include the balance sheet audit, price level accounting, the approach to the audit of transactions, and communications. Papers will be presented on each of these subjects followed by group and plenary discussion sessions.

October 27th–28th, November 2nd, 9th and 23rd

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Current Taxation Courses to be held at Perth, Glasgow, Edinburgh and Aberdeen

TO HIGHLIGHT some problems of 'Current tax legislation' and to encourage an exchange of views, one residential and three non-residential courses will be held in Perth, Glasgow, Edinburgh and Aberdeen from October 27th to 28th, November 2nd, 9th and 23rd respectively. Organized by The Institute of Chartered Accountants of Scotland, the courses will deal with new legislation introduced this year as well as sessions on problems resulting from past legislation. The residential course at Perth will provide additional time for discussion and case study.

October 31st–November 12th

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Modern Auditing Function – Course at North Berwick

A RESIDENTIAL course for young members in practice, whether in a managerial capacity or in a junior partnership position, will be held at North Berwick from October 31st to November 12th by The Institute of Chartered Accountants of Scotland under the title 'Modern auditing function'.

The object of the course will be to impart a sound approach to the main aims and objectives of auditing and to consider modern auditing standards and communication with clients. Time will also be devoted to flowcharting, statistical sampling and management mathematics, and in addition, time will be set aside for case study work.

November 1st–19th

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Residential Course for the Young Executive at North Berwick

A FURTHER residential course designed to be of greatest benefit to the manager of between 25 and 35 years of age will be held by The Institute of Chartered Accountants of Scotland at North Berwick from November 1st to 19th. It will be particularly directed at young accountants taking on managerial responsibility who require a broader appreciation of business functions.

The course will be built up in three main sections: principles and practice of management; use of resources (customers, plant and materials, money, men) and skills of management science. So that the maximum emphasis can be placed on practical work, participation and discussion, the number of participants will be restricted to 30.

November 30th–December 3rd

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Management Systems: Analysis, Design and Audit – Course at North Berwick

TO PROVIDE a basic appreciation of the language and principles of systems analysis and to illustrate the use of these in company organizations, The Institute of Chartered Accountants of Scotland is organizing a residential course entitled 'Management systems: analysis, design and audit' at North Berwick from November 30th to December 3rd. The course will be particularly relevant to recently qualified accountants.

Content matter will include systems case studies, implementation of the system, and the place of the computer in systems design. Approximately half the course will be taken up in either syndicate or plenary discussion of a case study related to the main lecture material. The principal case study will refer to problems associated with the installation and maintenance of a system of production control.

December 6th–10th

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Modern Management Techniques – Course at North Berwick

TECHNIQUES with which every manager should be familiar will be dealt with in a residential course on 'Modern management techniques' at North Berwick from December 6th to 10th organized by The Institute of Chartered Accountants of Scotland. Emphasis will be placed upon giving an appreciation of such subjects as marketing and selling, production control, and statistics and operational research. The course will be of particular value to 'middle' managers able to make use of modern management aids.

Taxation Cases

Sun Alliance Insurance Ltd *v.* CIR

In the High Court of Justice, Chancery Division – November 17th, 1970

(Before Mr Justice FOSTER)

Stamp duty – Transfer on sale – Court order approving scheme of arrangement – Outstanding minority holding – No transfer of shares – Register amended in accordance with order – Whether order liable to ad valorem *stamp duty – Stamp Act 1891, sections 14 (4), 54, 122 – Companies Act 1948, sections 206, 209 – Perpetuities and Accumulations Act 1964, section 15 (5) – Rules of Supreme Court, Order 42, Rule 1 (3).*

On July 19th, 1965, an order was made in the Chancery Division approving a scheme, under section 206 of the Companies Act 1948, whereby the minority shares in London Assurance were to be transferred to the appellant company. On July 23rd, 1965, an office copy of the order was delivered to the Registrar of Companies for registration. On July 22nd, 1965, Sun Alliance was registered by London Assurance as the holder of the shares in question.

The Revenue claimed that *ad valorem* stamp duty was payable on the order, in that it was a transfer on sale within section 54 of the Stamp Act 1891.

It was contended for the company that the transfer was effected by the delivery of the office copy of the order to London Assurance on July 23rd, 1965, and by the registration by London Assurance on July 22nd, 1965, of Sun Alliance as the holder of the shares in question; and that therefore no instrument of transfer ever came into being, and there was no instrument liable to stamp duty, because the effect of the Court order was no more than to bless the scheme.

It was contended for the Revenue that it was the making of the order that effected the transfer of the shares, because by virtue of the scheme London Assurance was bound to register the appellant company as the only shareholder.

Held: the contention for the Revenue was correct; the Court order was a transfer on sale, and it was liable to stamp duty accordingly.

Lupton *v.* Cadogan Gardens Developments Ltd
Carlton Tower Ltd *v.* Moore

In the Court of Appeal – March 3rd, 1971

(Before Lord Justice RUSSELL, Lord Justice BUCKLEY and Lord Justice CAIRNS)

Income tax – Writing-down allowances – Machinery and plant – Hotel – Service installations – Whether lessor or lessee entitled to allowances – Customs and Inland Revenue Act 1878, section 12 – Income Tax Act 1918, Cases I and II of Schedule D, Rule 6 (2) – Finance Act 1940, section 22 – Income Tax Act 1945, section 20 – Income Tax Act 1952, sections 298, 299.

By two leases certain machinery and plant was let with and forming part of a hotel and restaurant for 90 years from September 29th, 1960. The lessee covenanted to maintain in good repair all parts of the demised premises and the service installations and fixtures inside and out; and by clause 2 (*f*) to replace all outside service installations becoming worn out or unfit for use. It was conceded for the purpose of these cases that the items in question were machinery or plant, and that it was highly probable that clause 2 (*f*) would take effect, and possibly more than once, during the lease.

The Special Commissioners granted the capital allowances in respect of the installations to the lessor, Cadogan Gardens Development Ltd, and refused them to the lessee, Carlton Tower Ltd.

Held (affirming the judgment of Mr Justice Goff, *The Accountant*, September 3rd, 1970): the lessee, Carlton Tower Ltd was entitled to the allowances.

Ex Parte Lewis Ernest Adams

In the High Court of Justice (Queen's Bench Division) – October 22nd, 1970

(Before THE LORD CHIEF JUSTICE OF ENGLAND (Lord PARKER OF WADDINGTON), Mr Justice ASHWORTH and Mr Justice BROWNE)

Income tax – Trade adventure – Appeal hearing – Notice of appeal meeting not served – General Commissioners' decision set aside – Assessment for subsequent years – Transaction in another division – Also in another tax district – Whether Inspector entitled to make assessments – Whether General Commissioners had jurisdiction to hear appeals – Income Tax Act 1952, section 150 – Income Tax Management Act 1964, sections 3, 5, 11 (4), 17, Schedule 6 – Income Tax (Service of Notices) Regulations 1952, No. 653.

The earlier proceedings in this case are reported in *The Accountant*, November 27th, 1969, After the decision of the General Commissioners had been set aside in the previous proceedings, the Inspector for the district of Launceston, in the division of Tavistock, made assessments in respect of the transaction relating to Orchard House, which is in Surrey, for 1962–63 and 1963–64. Appeals against these assessments came before the General Commissioners for the Tavistock Division on April 27th, 1970, when it was contended for the taxpayer that the Inspector for the Launceston district had no jurisdiction to make an assessment respecting the transaction at Hook in Surrey; and that therefore the General Commissioners for the Tavistock division had no jurisdiction to hear the appeal. The General Commissioners decided this question in favour of the taxpayer on the ground that, although the Inspector had jurisdiction to make the assessments, as the transaction relating to Orchard House had not taken place within their division, they had no jurisdiction to hear appeals against the assessments.

Held: as the General Commissioners had decided they had no jurisdiction in the matter, the decision of the Inspector to make the assessments should be quashed; but that the appeals could be brought on for hearing before

the General Commissioners for the district in which Orchard House was situated.

Mr Marcus Jones *for the Taxpayer;* Mr Patrick Medd *for the Revenue.*

Shell Petroleum Co Ltd *v.* Carr

In the Court of Appeal – March 3rd, 1971

(Before Lord Justice RUSSELL, Lord Justice CROSS, and Lord Justice CAIRNS)

Corporation tax – Transitional relief – Company with overseas trading income – Overseas trade corporation for six months to April 5th, 1966 – Whether to be treated as resident as from earlier date – Whether resident in any possible base year 1964–65 – Excess credit for foreign tax – Whether company to be treated as having had credit for foreign tax – Whether overspill in base year – Related period – Accounting period – Whether capable of extension – Income Tax Act 1952, sections 129 (2), 347, 348 – Finance Act 1957, section 23 – Finance Act 1965, sections 49, 51, 64, 80, 84, Schedule 20, paragraphs 1, 2.

The appellant company had two wholly-owned subsidiaries, S.E.T. and Qatar, and with other subsidiaries formed a group of companies. It was common ground that the overseas trading results of S.E.T. and Qatar should be taken into account under Schedule 20 of the Finance Act 1965 in computing the appellant company's right to transitional relief under section 84 of that Act, subject to the questions which arose in this case. The year of claim was 1966–67.

S.E.T. was incorporated in Bermuda, and was resident there until October 1st, 1965, when the appellant company acquired all its issued capital. It thereupon became resident in the United Kingdom for tax purposes. It was also liable to taxation in Iraq. From October 1st, 1965, to April 5th, 1966, it qualified as an overseas trade corporation, and was not chargeable with income tax, profits tax, or corporation tax before April 6th, 1966.

Qatar was incorporated here, and had always been resident here. It was liable to tax in Qatar where it traded, and was chargeable to United Kingdom tax for 1963–64 and 1964–65; but it qualified as an overseas trade corporation for the whole of 1965–66, when it was not chargeable to United Kingdom tax on its undistributed overseas trading income. It elected under section 129 (2) of the Income Tax Act 1952, and was assessed to income tax for 1964–65 on its actual income of that year; and if it had remained liable to United Kingdom tax for 1965–66, it would have been assessable on its actual income of that year.

S.E.T. was an overseas trade corporation from October 1st, 1965, to April 5th, 1966, but it had nevertheless by Schedule 20 of the 1965 Act to be treated as if it had never been one. It was contended for the appellant company (1) that for 1966–67 S.E.T. fell exactly within the two hypotheses in paragraph 2 (1) of Schedule 20, namely (*a*) that it had never been an overseas trade corporation, (*b*) that it had been charged to income tax and profits tax at all relevant times, and had been given credit for foreign tax; (2) that S.E.T.'s related period for the purposes of section 84 (2) was the twelve months ended December 31st, 1965; (3) that Qatar's related period was January 1st, to April 5th, 1966, extended back to April 6th, 1965. It was contended for the Revenue (1) that S.E.T. was in fact not resident in the United Kingdom in any of its three possible base years in section 84 of the Finance Act 1965; (2) that it was not in fact chargeable to income tax or profits tax in any of those years; (3) accordingly no credit for foreign tax was in fact allowed to S.E.T., nor would any such credit have been allowed, if it had never been an overseas trade corporation; (4) consequently S.E.T. did not satisfy section 84 (1) (*b*) of the 1965 Act, even on the hypothesis that it was not an overseas trade corporation, (5) that the related period was the period from October 1st, 1965, to April 5th, 1966, and could not be extended; (6) alternatively, if the period could be extended back to January 1st, 1965, still no credit for foreign tax could accrue until S.E.T. became resident in the United Kingdom on October 1st, 1965; (7) that Qatar had no related period in respect of 1966–67.

The General Commissioners decided (1) that S.E.T. should not be treated as if it had been given credit for foreign tax in 1964–65, (2) that S.E.T.'s related period was the six months from October 1st, 1965, to April 5th, 1966, (3) that Qatar had no related period.

Held (affirming the judgment of Mr Justice Buckley, *The Accountant*, May 14th, 1970): the General Commissioners' decision was correct.

United States Government *v.* Brokaw, Shaheen and Seatrain UK Ltd

In the Court of Appeal – February 12th, 1971

(Before THE MASTER OF THE ROLLS (Lord DENNING), Lord Justice SALMON and Lord Justice PHILLIMORE)

United States taxes – Taxpayer's goods on ship bound for United Kingdom – Notice of levy for tax on ship-owner – Requiring goods to be surrendered to United States Treasury – Goods not delivered to consignees – Interpleader by ship-owner – Whether United States claim enforceable in English Courts – Rules of Supreme Court, Order 17, Rule 5 – Internal Revenue Law, section 331.

On September 2nd, 1970, the *Transoregon*, registered in the United States and flying its flag and owned by a United States company, loaded certain household effects at Baltimore. The consignees were Interdean Ltd of Fenchurch Street, London, the port of discharge, and the household effects were for delivery to Mr Brokaw, the son-in-law of the taxpayers in the United States. On September 15th, 1970, while the *Transoregon* was on the high seas, a notice of levy was served on the ship-owner demanding that all property belonging to Mr and Mrs Shaheen in the possession of the ship-owner should be surrendered to the Secretary of the United States Treasury. The *Transoregon* docked in Southampton on September 19th, 1970, and a claim was made on behalf of the United States Government for possession of the household effects on the ground that Mr and Mrs Shaheen owed taxes to the United States, and that the United States Government was entitled by the Internal Revenue Law, section 331, to levy upon the goods in question.

Mr Brokaw, who was living in England, and Mrs Shaheen, who was in the United States, brought an action in detinue against the ship-owner, claiming delivery of the goods or their value. Thereupon the ship-owner took out an interpleader summons, which came before the Master under Order 17, Rule 5. The Master took the view that the claim of the United States Government was not maintainable, because it was a claim to enforce in English Courts the revenue law of another country, and he barred the United States Government from the claim.

Held: the decision of the Master was correct.

FINANCE AND COMMERCE

Youghal Carpets Seek London Quotation

FOR shareholders in Youghal Carpets (Holdings) one of the main points in the 1970 report and accounts is news that the necessary moves are being made towards obtaining a London Stock Exchange quotation for the company's shares. The company is based at Youghal, County Cork, and at present the shares are only quoted on the Dublin and Cork stock markets. At least a third of the shareholding, however, is held by United Kingdom residents – the shareholding of this extent having resulted from a number of UK acquisitions by the Irish company.

The Youghal accounts are presented in accordance with the requirements of the Irish Companies Act of 1963 which, in terms of information demanded, lags a considerable way behind the British Act of 1969. London Stock Exchange quotation requirements will tighten the company's reporting to some degree.

Youghal Carpets (Holdings) last appeared in 1967 in its old form of a single weaving plant and a small spinning factory. Woven carpet sales to the consumer were then about £2,000,000 and pre-tax profit £250,000. In the following year expansion in the UK began with the acquisition of Morris & Co, Kidderminster, and of the Gloucester Carpet Company. In Ireland, a new spinning factory at Killacloyne was started and the combined effect of these moves was to lift the company from being a relatively small manufacturer in Ireland to a group with a significant manufacturing and sales operation in the UK.

£10 million sales

For the 15 months' period to the end of 1968 profits were £410,781. In 1969, negotiations for the acquisition of Wilton Royal Carpets were begun and final consolidation took place in February of 1970. The situation now is that the Youghal group has five weaving plants in the UK and one in the Republic of Ireland. A large spinning plant supplies the bulk of the yarns to these plants and total group sales have increased to over £10 million; trading profits for the year under review were close on £1,220,000.

The Wilton Royal group consists of the Wilton Royal Carpets company, based at Wilton, Hampshire, weavers of Axminster and Wilton carpets; Hampshire Industrial Textiles, weaving tufted carpets at Romsey, in Hampshire, and the Solent Carpet Company, weavers of Axminster carpets in Southampton. Youghal, while building up its vertical organization, has also made its first move outside carpet manufacturing in the setting up of a new company called Rug Plan to market rug kits by mail order. The intention is to add some further diversifications over the years wherever the opportunity presents itself.

This year is stated to have opened much more favourably than last year, with sales and orders ahead in all plants. Mr Brian O'Brien, the chairman, states that 'Youghal has never failed to increase its profits year by year regardless of whether the year is said to be good or bad'. It may prove increasingly difficult to maintain that record as the group becomes a bigger power in the industry.

New money

Group turnover is mentioned in the chairman's statement as having been over £10 million in 1970 but no definite turnover figure is given in the accounts, and as the reprint shows, the notes on the accounts and the financial statistics are inadequate in terms of UK company reporting standards. The requirements of London Stock Exchange quotation for the shares will certainly improve reporting performance in these particular areas.

The balance sheet could obviously be regrouped to advantage and on the matter of the substantial increase in bank overdraft, the chairman comments that borrowings should be reduced by reason of the substantial cash flow generated provided profit targets are met. But should a favourable opportunity arise 'the board may consider raising additional permanent capital' and that is a matter that may well be tied in with the decision to seek a London quotation.

Mention of bank borrowings serves as a reminder that at the end of 1970 the Irish bank strike was still going strong and the lack of 'usual confirmations from the company's Irish bankers' is mentioned in the auditors' report. The auditors' report, it may be noted, does not state that the accounts of UK subsidiaries have been audited by other firms, although it would seem logical to assume that the UK subsidiaries still have UK auditors.

Irish taxation

An interesting item in the profit and loss account is the surplus of £109,581 arising on revaluation of patterns. There is, however, no explanation of this item in the directors' report or the chairman's statement and, as will be seen, the item does not merit a mention in the notes to the accounts.

In those notes there is, in Note 5, an indication of the extent of Irish Government industrial grants, while in the profit and loss account and chairman's statement there are pointers to the Irish taxation system. The chairman states that 'due to the company's success in the export market the income tax rate amounts to 10·6p in the £ (2/1·5*d* old currency) as against a figure of 14·2p (2/10*d* old currency) in the previous year'. For shareholders resident in the Republic and assessable to income tax and surtax, this low tax rate 'substantially increases the net dividend yield'.

The dividend, incidentally, is raised from 36 per cent to 39 per cent and the chairman's statement gives the dividend cover at 1·9 times. The statement also points out that earnings per share advanced 6p.

But the chairman's statement should not be the original source of information on turnover, dividend cover and earnings per share. It should be the source of comment on these items shown separately elsewhere in the report.

Ernest Scragg

PUBLICATION of the accounts of Ernest Scragg & Sons (Holdings) of Macclesfield, the textile machinery group, is a reminder of last year's troubles in that industry. Scragg acquired the machinery division of the Klinger Manufacturing Company at a cost of £2,010,000 finally 'satisfied' by the issue of 167,500 Scragg shares at 60p a share. The loss pre-tax of £979,428 in the Scragg accounts (against a previous year profit of £6,081,881) was arrived at after charging exceptional and non-recurring expenses amounting to £1,351,000, of which £1,121,000 related to the Klinger machinery division. Trading conditions became poor and turnover was back from £25·94 million to £17·19 million.

Issue of the accounts was delayed until the analysis of the 'very confused' stock position at Klinger had been completed. The analysis has shown £437,000 of Klinger stock to be 'definitely redundant' and, in addition, the Scragg board considered it prudent to provide for a possible write-off of a further £380,000 because of the complexity of the stock situation.

Heavy expenses were incurred in closing the Klinger works and moving stock and production facilities to Scragg factories. There were also cancellation and redundancy charges on the whole group due to a 'very great' cutback in production.

The current year forecast is for 'only a modest profit' but the 1971–72 prospect is considered 'much more promising'.

YOUGHAL CARPETS | HOLDINGS | LIMITED+SUBSIDIARIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31 December 1970

	£	£	£	£	£	1969 £
Profit for the year after charging and crediting the items inset below			796,930			£530,909
		1970			1969	
Charged						
Depreciation		276,599			167,893	
Directors' remuneration:						
Fees		1,750			200	
Other emoluments		35,109			16,634	
Auditor's remuneration		5,250			3,167	
Mortgage interest		2,250			2,250	
Unsecured Loan Stock		145,927			—	
Credited						
Dividends		3,092			3,093	
Surplus arising on revaluation of patterns			109,581		—	
			906,511			
Deduct provision for taxation on profits for year						
Income tax	35,764				30,377	
Corporation profits tax and Corporation tax	67,208		102,972		26,036	56,413
Profit after taxation			803,539			474,496
Add Unappropriated profit from previous year						
Holding company	136,284				112,476	
Subsidiary companies	359,157				231,298	343,774
	495,441					
Deduct: Underprovision for Taxation in previous years	16,993		478,448			
			1,281,987			818,270
Deduct dividend paid to minority interest			1,100			1,100
			1,280,887			817,170
Deduct dividends *less* tax of Holding Company Paid						
Preference shares (7½%)	10,054			9,657		
Preference shares (8%)	25,025			24,034		
Ordinary shares (14%)	146,264	181,343		112,015	145,706	
Proposed: Ordinary shares (25%)		261,187	442,530		176,023	321,729
Unappropriated profit carried forward						
Holding company		187,401			136,284	
Subsidiary companies		650,956			359,157	
			£838,357			£495,441

Brian L. J. O'Brien
John C. Murray
Directors

YOUGHAL CARPETS | HOLDINGS | LIMITED+SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
as at 31 December 1970

	Authorised	Issued and fully paid		31 December 1969	
Share capital	£	£	£	£	£
7½% cumulative preference shares of £1	150,000	150,000		*150,000*	
7% redeemable cumulative preference shares of 7s. 6d.	60,000	—		—	
8% cumulative preference shares of £1	350,000	350,000		*350,000*	
Ordinary shares of 5s.	1,500,000	1,168,948		*932,163*	
'A' ordinary shares of £1	50,000	—		—	
	2,110,000		1,668,948		*1,432,163*
Capital reserve *note 1*			446,969		*981,631*
Revenue reserve					
Profit and loss account			838,357		*495,441*
Future taxation					
Estimated tax liability		107,468		*26,291*	
Tax equalisation		71,840	179,308	*3,536*	*29,827*
11% unsecured loan stock 1970–'74			1,456,233		
Minority interests *note 2*			20,275		*20,275*
Deferred liabilities					
Liability on hire purchase		516,030		*429,124*	
Loans *note 3*		17,257	533,287	*18,531*	*447,655*
Current liabilities					
Bank overdraft *note 4*		2,605,241		*761,471*	
Bills payable		880,221		*266,120*	
Creditors and accrued charges		1,420,963		*701,734*	
Current taxation		146,701		*117,371*	
Proposed dividends		261,187	5,314,313	*176,023*	*2,022,719*
			£10,457,690		*£5,429,711*

	Cost or valuation	Accumulated depreciation		31 December 1969	
Fixed assets	£	£	£	£	£
Land and buildings	2,064,148	47,157	2,016,991		*1,237,427*
Plant, equipment and vehicles	3,480,617	1,153,767	2,326,850		*1,582,802*
	5,544,765	1,200,924	4,343,841		*2,820,229*
Less State grants *note 5*			475,530		*250,000*
			3,868,311		*2,570,229*
Deferred development expenditure *note 6*			104,669		*18,443*
Investment in Associated Company					
At cost			19,930		*19,243*
Current assets					
Stocks *note 7*		3,322,949		*1,953,312*	
Debtors and prepayments		2,031,468		*861,943*	
Bank balances and cash		1,110,363	6,464,780	*6,541*	*2,821,796*
			£10,457,690		*£5,429,711*

Brian L. J. O'Brien
John C. Murray
Directors

The notes on page [601] form part of the accounts

YOUGHAL CARPETS | HOLDINGS | LIMITED

BALANCE SHEET
as at 31 December 1970

	Authorised	Issued and fully paid		31 December 1969	
	£	£	£	£	£
Share capital ●					
7½ cumulative preference shares of £1	150,000	150,000		*150,000*	
7% redeemable cumulative preference shares of 7s. 6d.	60,000	—		—	
8% cumulative preference shares of £1	350,000	350,000		*350,000*	
Ordinary shares of 5s.	1,500,000	1,168,948		*932,163*	
'A' ordinary shares of £1	50,000	—		—	
	2,110,000		1,668,948		*1,432,163*
Capital reserve *note 1*			2,316,393		*1,052,550*
Revenue reserve					
Profit and loss account		187,401			*136,284*
Future taxation					
Estimated income tax liability 1971–72		86,838		*27,368*	
Tax equalisation		—		*1,207*	
			86,838		*28,575*
11% unsecured loan stock 1970–'74			1,456,233		—
Current liabilities					
Bank overdraft		1,806,775		*494,401*	
Bills payable		733,336		*245,605*	
Creditors and accrued charges		312,289		*30,992*	
Current taxation		69,795		*77,488*	
Proposed dividends		261,187		*176,023*	
			3,183,382		*1,032,509*
			£8,899,195		*£3,682,081*

			31 December 1969	
	£	£	£	£
Interest in subsidiaries			*1969*	*1969*
Unquoted shares at cost *less* amounts written off		4,028,832		*1,040,806*
Amounts owed by subsidiaries	5,473,681		*3,048,385*	
Less: Amounts owed to subsidiaries	919,134	4,554,547	*431,051*	*2,617,334*
		8,583,379		*3,658,140*
Associated company				
Shares at cost		19,930		*19,243*
Current assets				
Debtors and prepayments	10,956		*1,551*	
Bank balances and cash	284,930		*3,147*	
		295,886		*4,698*
		£8,899,195		*£3,682,081*

Brian L. J. O'Brien
John C. Murray
Directors

The notes on page [601] *form part of the accounts*

YOUGHAL CARPETS | HOLDINGS | LIMITED

NOTES ON THE ACCOUNTS

	£ Group	£ Company
1 Capital reserve		
Share premium account at 31st December 1969	1,052,550	1,052,550
Add: Premium on issue of shares as part consideration for acquisition of shares in Wilton Royal Carpets Limited	1,306,982	1,306,982
	2,359,532	2,359,532
Less: Share acquisition expenses	43,139	43,139
Share premium account at 31st December, 1970	2,316,393	2,316,393
Goodwill on consolidation	1,869,424	
	446,969	

2 Minority interest

This amount represents the interest of the preference shareholders of the Gloucester Carpet Company Limited

3 Loan	1970	1969
Loan on mortgage	30,000	30,000
Less: Insurance premium in respect of redemption	12,743	11,469
	£17,257	£18,531

4 The National Westminster Bank Limited holds a floating charge on the assets of a subsidiary company. The credit held at Bankers amounting to £1,106,614 appearing in current assets in the Consolidated Balance Sheet was not credited against overdraft accounts at 31st December, 1970 due to the closure of the Irish Banking facilities

5 Group contingent liability—State grants

Under agreements between Group Companies and the Industrial Development Authority, grants of £475,530 have been received or are receivable at 31st December, 1970 (1969 £250,000) There exists a contingent liability to repay in whole or in part the grants received if certain circumstances set out in the agreements occur before the receipt of the final instalment of the grants or within ten years thereafter

6 Deferred development expenditure

The development expenditure attributable to Rug Plan Ltd. and Youghal Carpet (Yarns) Ltd. is being written off over five years

Stocks

Stocks are valued at lower of cost and net realisable value

9 Capital expenditure commitments

Contracts for capital expenditure not provided for in the Group accounts amounting to £229,704.
(1969—£379,836)

YOUGHAL CARPETS | HOLDINGS | LIMITED

GROUP PROFITS AND OTHER FINANCIAL STATISTICS 1964—70

	1964	1965	1966	1967	1968 15 month period	1969	1970
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Group Profit before depreciation	143	192	300	325	536	699	1,329*
Depreciation	21	41	60	75	125	168	276
Loan Stock Interest	—	—	—	—	—	—	146
Profit before taxation	122	151	240	250	411	531	907
Taxation	29	35	59	57	52	57	103
Profit after taxation	93	116	181	193	359	474	804
Minority interests	—	—	—	—	—	1	1
Profit attributable to Youghal shareholders	93	116	181	193	359	473	803
Dealt with as follows:							
Preference dividends–net	—	9	9	9	33	34	35
Ordinary dividends–net	40	53	93	128	184	288	408
Capital issue expenses	6	—	3	1	—	—	—
Profits retained	47	54	76	55	142	151	360
	93	116	181	193	359	473	803

* Includes £109,581 surplus arising on revaluation of patterns

YOUGHAL CARPETS | HOLDINGS | LIMITED

AUDITORS' REPORT

To the Members of Youghal Carpets (Holdings) Limited

We have examined the annexed Balance Sheet which is in agreement with the books of account and have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit, with the exception of the usual confirmations from the company's Irish Bankers, which were not available due to the closure of those banks. In our opinion proper books of account have been kept by the Company so far as appears from our examination of those books.
We have also examined the annexed Consolidated Balance Sheet and Consolidated Profit and Loss Account. In our opinion the Balance Sheet and the Consolidated Accounts, together with the notes thereon comply with the requirements of the Companies Act, 1963, and give respectively a true and fair view of the state of the Company's affairs as on 31st December 1970, and so far as concerns members of the Company a true and fair view of the state of affairs of the Group at 31st December 1970, and of the profit of the Group for the year ended on that date.

C. P. McCarthy, Daly & Co.
Auditors and Accountants
40, South Mall, Cork
26th March, 1971

CITY NOTES

WHEN the stock-market obviously changes from bear to bull – and the change has become blatantly obvious now – there is always difficulty in finding out just why the change has come about There is always a hangover of bear factors which the market is apparently disregarding, and a prospect of bull factors that can only be registered in terms of hope.

Accordingly there is much questioning as to whether the new-found strength in the equity market is discounting a true turn for the economic better six months and more hence, or whether it is forecasting inflation upon inflation and entirely the wrong kind of boom. Is this the beginning of a normal bull market, or is it the beginning of a German 1920-type inflation?

The latter may be an extreme question, but it is natural that it should be asked at a time when, whatever the Government may profess to the contrary, the wage situation in certain spheres of industry is bordering on the ridiculous. The point to appreciate is that the ridiculous only borders few industries – and the motor industry in particular.

The majority view must be that the stock-market is beginning to discount a true economic improvement rather than a ruinously inflationary one. The assumption must be that facts will soon begin to justify the mood.

* * * *

AT the Cunard company's annual meeting, Sir Basil Smallpeice commented at some length on the accounting treatment of the results of associated companies. Cunard, he pointed out, would have reported a loss of only £200,000 for 1970 instead of £2 million had Cunard's accounts 'been prepared on the same bases as those that seem to have been used by others'. That was a reference to the P & O shipping company, which apparently plans to change over to the Institute's recommendations on associated companies in its current accounts but did not do so in 1969–70. P & O have already forecast halved profits for the current year.

The lack of uniform treatment, and the unsatisfactory position arising during the period of debate between industry and the accountancy profession, rather than any doubts with the Institute's view, worried Sir Basil. He admitted that those who have minority interests in associated companies where the investments are so locked in that there is no voting power to get profits out other than to the extent of dividends controlled by the votes of others, should be reluctant to consolidate their share of the full results of those associated companies.

'But', he said, 'when one or more of those associated companies simply continue the parent company's previous business in a different form and in partnership with others – which is the case with containership consortia in the liner trades – the recommended practice of the Institute of Chartered Accountants must surely be right'.

* * * *

AS soon as the stock-market turns better there are always 'chicken and egg' questions asked. For example, is the current impression that the anticipated 'autumn' Budget may become a 'summer' Budget the part-cause of the stock-market confidence, or has the stock-market rise led to an assumption that the Government will be obliged to reinforce the spring Budget earlier than originally anticipated? The latter is probably nearer the truth because of the determination of commentators to find an immediate reason for a change of trend which is not necessarily concerned with immediate factors. What is virtually certain is that the spring Budget will be reinforced well before the year is out.

RATES AND PRICES

Closing prices, Tuesday, May 4th, 1971

Tax Reserve Certificates: (26.4.71) Companies 4½%; 2½% surrendered for cash; Personal 4%

Bank Rate

Nov. 9, 1967	6½%	Feb. 27, 1969	8%
Nov. 18, 1967	8%	Mar. 5, 1970	7½%
Mar. 21, 1968	7½%	April 15, 1970	7%
Sept. 19, 1968	7%	April 1, 1971	6%

Finance House Base Rate – May 1st, 1971. 7½%

Treasury Bills

Feb. 26	£6·7157%	April 2	£5·8293%
Mar. 5	£6·6940%	April 8	£5·7849%
Mar. 12	£6·6659%	April 16	£5·7561%
Mar. 19	£6·6416%	April 23	£5·7081%
Mar. 26	£6·6242%	April 30	£5·6844%

Money Rates

Day to day	3–5¾%	*Bank Bills*	
7 days	4¼–6%	2 months	7–7⅛%
Fine Trade Bills		3 months	7–7⅛%
3 months	7½–8%	4 months	7–7⅛%
4 months	7½–8%	6 months	7 1/16–7 3/16%
6 months	7¾–8%		

Foreign Exchanges

New York	2·4185	Frankfurt	8·7790
Montreal	2·4400	Milan	1505·15
Amsterdam	8·6895	Oslo	17·2450
Brussels	120·04	Paris	13·3340
Copenhagen	18·1305	Zürich	10·3880

Gilt-edged

Consols 4%	44	Funding 6% 1993	71½
Consols 2½%	27½	Funding 6½% 85–87	81⅛
Conversion 3½%	38¼	Savings 3% 65–75	87½
Conversion 5% 1971	99⅞	Treasury 6½% 1976	98¼
Conversion 5¼% 1974	96 13/32	Treasury 3½% 77–80	76
Conversion 6% 1972	99¾	Treasury 3½% 79–81	73½
Funding 3½% 99–04	45⅝	Treasury 5% 86–89	66¼
Funding 4% 60–90	97½	Treasury 5½% 08–12	62½
Funding 5¼% 78–80	85¾	Treasury 2½%	27¼
Funding 5½% 82–84	80⅞	Victory 4%	96
Funding 5¾% 87–91	71⅛	War Loan 3½%	37¾

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The Institute of Chartered Accountants in Ireland

President's Statement

At the Eighty-third Annual General Meeting

THE eighty-third annual meeting of The Institute of Chartered Accountants in Ireland was held in Belfast on Saturday last, May 1st. Mr Darwin H. Templeton, F.C.A., President, was in the chair.

In the course of his address the President said:

I propose to mention briefly what to me were the highlights of the year and to enumerate some of the problems facing our Institute.

Co-operation with other accountancy bodies

The proposed scheme for the development of the accountancy profession in Ireland and Great Britain was, unfortunately, decisively rejected by the members of the English Institute and the proposal in the schemes for the integration of the participating bodies into three chartered institutes cannot now be implemented.

It was implicit in the proposals that there be close co-ordination of activities between the three new chartered institutes for the development of areas of common interest. The close contacts established over the last few years with the other chartered institutes are being maintained and developed but closer consultation with the other main accountancy bodies is not only desirable but necessary, and we in Ireland have progressed in this direction by the establishment of a consultative committee composed of representatives of our Institute and the Irish branches of the Association of Certified and Corporate Accountants and the Institute of Cost and Works Accountants. The first meeting of this committee will be held early this month.

Reciprocity of membership with the other chartered institutes is being actively discussed and I hope will become a reality in the very near future.

Objectives and organization of the Institute

The rejection of the integration proposals necessitated a reassessment of our Institute's development plans. Your Council is firmly committed to the implementation of the programme as outlined in the Whelan Report (*The Accountant*, January 8th, 1970).

I am sure you agree that it is essential that we proceed with our plans to develop a first-class Institute geared to serve adequately the needs of members and students in the fields of education and training, technical services, public relations and membership services; an Institute geared to serve the changing needs of society, maintaining the standing of our profession in the community and ensuring that our standards are such that the Institute is accorded its proper place in the accountancy profession throughout the world.

It is a great disappointment that we have not yet filled the post of director and are encountering difficulties in the recruitment of the necessary supporting staff. These matters will be pursued vigorously in the coming months. New proposals for amendment of the Charter and Bye-laws are being prepared to give effect to some worth-while proposals contained in the scheme of integration which can be pursued independently and which will give members and Council more freedom to deal with the affairs of the Institute. These proposals will be submitted to a special meeting of members in the autumn.

Education and training

The highlight of the year has been the publication of the Derryhale Report (*The Accountant*, January 21st), and the subsequent successful conference held in Bray to discuss the report. We were delighted that Mr Padraic Faulkner, Minister for Education in the Republic, agreed to open the conference, heralding what I know will be a new era of co-operation between the Departments of Education – both North and South – and our Institute, in educational matters.

The Bray conference was attended by representatives of the English and Scottish Institutes. Departments of Education (North and South) universities, colleges of business studies, regional technical colleges, all the major tutorial colleges. Also present were our own members representing practice, industry and commerce and students and other educationalists. A lively and controversial debate was a feature of the sessions and the reports of the rapporteurs are now being studied by the Education and Training Committee who will submit a final report to Council before publication.

I am pleased to report that the new nine-months course in Belfast is now certain to commence in September and that it will be grant-aided by the Northern Ireland Government. It is possible that at least one such course will be held in the Republic but unfortunately government aid there can only be very limited at the present time. Discussions are currently taking place with our sister Institutes regarding all areas pertaining to education and training where co-ordination and co-operation can take place. I sincerely hope that these discussions will ultimately lead to common entrance standards to our profession, equally good educational facilities for all and a common final examina-

tion, so that our qualifications do not need to be considered equal but are in fact the same.

Members must recognize that change is the price of progress. Under the new proposals the pattern in practising offices will change but I am confident that members will look at the final proposals realistically and co-operate willingly in their implementation.

Educational trust

The dearth of textbooks based on Irish law and practice has long been a difficulty. The Boyd family some time ago generously donated a capital sum of £1,500 to the Institute in memory of the late Hugh and Stanley Boyd. Frank Maunder has also sent a substantial gift of £1,000. It is intended to use these moneys as a base for an Educational Trust, the income from which will be used for special educational purposes such as subsidizing the publication of special textbooks and educational research. It is hoped that members will make voluntary contributions to this fund later.

Technical Committee

The Technical Committee has spent long hours on work which is of vital importance to all our members. The committee has recently submitted to the Council its plans for the creation of a Technical Department as mentioned in the Whelan Report. Inflation and the magnitude of the task to be undertaken has substantially increased the cost over that originally envisaged and the viability of this project within the context of our Institute, including the obvious financial problem, is under active discussion. Consideration will have to be given to the question as to whether this particular project should be financed by the members generally or by some other method such as a special levy.

Accounting standards

One of the most important aspects of the year's work has been our active participation in the Accounting Standards Steering Committee. The first statement of standard accounting practice, ('Accounting for the Results of Associated Companies') has already been issued and exposure drafts on various subjects have been issued, considered by our Technical Committee and representation made. It must be our aim to have common accounting standards which are acceptable to the profession and industry and commerce, and understood by the public and all those who deal with accounts and finance. If this aim is not achieved our reports and opinions may become suspect and we could well have government legislation to impose standards which we ourselves should set.

Finance

The accounts and schedules show clearly the present financial position of the Institute. A surplus of £7,772 for the year is shown, but our budgets for 1971 and forward projections to 1973 show substantial and increasing deficits. We must finance our future development without the capital inflow, and without the increased annual income from subscriptions, which would have been available from the larger membership following integration.

The present structure of subscriptions, etc., has been reviewed by a special committee and recommended changes made to Council. These proposed changes, which will inevitably result in substantially increased subscriptions, will be placed before the special meeting of members to be held in the autumn. To illustrate the financial problems which can arise in administrating and developing a professional Institute in times of inflation I would mention the deficit of £368,000 shown by the accounts of one of our sister Institutes.

Council retirements

Mr Niall Hogan retires from the Council at this meeting. He has given long and sterling service as a member and as President, and as father of the Council his opinions and advice were always welcome. Mr T. D. Lorimer, a Past President, also retires. Our youngest President, Mr Lorimer, was a tower of strength during the integration negotiations and was a most active member of all our committees. On your behalf I thank Mr Hogan and Mr Lorimer for their immense contribution to the success of the Institute, and for myself my best thanks for their support and encouragement to me during the past year. Mr T. Kenny retired from the Council in June last on his retirement from practice. Being resident in London, he carried the main burden of the integration negotiations and our Institute can never repay him for the work he has done on our behalf.

General comments on economic affairs

Before concluding I would like to comment briefly on the economic position. Our Institute represents Ireland as a whole and I am sure we are all delighted to note that the spirit of co-operation between our two governments has been revived. Nothing but good can flow from the discussions now taking place and we hope that not only goodwill but material benefits for all our people will be the outcome.

The urgent need of North and South is new industry – an inflow of new capital and management know-how. Due, no doubt, to the recent troubled state here in Northern Ireland, the influx of new industry and capital has practically ceased. The local and foreign banks operating here do encourage investment and make loans and overdrafts available, but their approach must be purely commercial – adequate security, a proper return on capital advanced and repayment within a reasonable time.

The Northern Ministry of Commerce has made tremendous efforts to attract new industry by providing grants and loans. These enticements, which proved so successful in the past, could in present and future conditions be found to be not so effective as they have been in the past. In my opinion, the time has come for the Northern Ireland Government to put social before commercial considerations and be prepared, if necessary, to take more than the accepted commercial risk.

I put forward, for consideration, the idea of forming a government-sponsored corporation which would be prepared to share the risk with industrialists by offering to supply, say, half the equity capital required for new worth-while projects which create new or additional jobs. The industrialists should have an option to buy the government-held shares at an agreed price when the company was properly established and the jobs secure. This corporation could ultimately become self-financing and the Government's social objective would be achieved.

Additional capital is also required to develop the public sector of our economy and to provide amenities so lacking but necessary in a modern community. Is it not possible to issue a special guaranteed government stock at an attractive

effective rate of interest which would, not only retain in this country savings which are presently being channelled to Great Britain or abroad for investment, but would also attract investment here by the large institutions.

Much has been written about the deterioration in the liquidity position of companies in the Republic and the lack of investment in the new plant etc., so necessary if local companies are to compete successfully if, or when, Ireland joins the European Economic Community. Stagnation of profits in a highly inflationary economy, coupled with the penal rate of company taxation has been the main reason for this liquidity crisis which could well result in massive redundancies and the ultimate failure of many companies causing irreparable damage to the economy.

It is a great disappointment that the Minister, who is fully aware of this situation, has not tackled the fundamental problem when formulating the taxation proposals outlined in his recent Budget statement, apart from the limited concession granted in the temporary free depreciation proposals.

Election of President and Vice-President

As noted under 'Current Affairs' on another page, Mr Niall Crowley, F.C.A., Dublin, was unanimously elected President for the ensuing year, and Mr Charles Hedley Nicholson, F.C.A., London, was unanimously elected Vice-President.

Letters

Accounting Principles and Management Accountants

SIR, – Your issue of April 1st contained extracts from an address given by Professor Stamp at a conference of the Institute of Cost and Works Accountants, and some of his remarks have inferences which really cannot be left unchallenged.

The professor seems to have been at pains to emphasize a distinction between two branches of the profession, and to assume that the three Chartered Institutes represent the interests of one branch – the financial – while the Cost and Works Institute, he implies, represents the interests of the other – the management accountants. Admittedly, his object was to urge co-operation between the two branches, but it seems to me that the professor has fallen a victim to academic generalities.

The days are long past when 'the auditors' marched in, took over the books, and produced 'their' annual accounts for the company. Most company accountants nowadays set out to prepare a set of year-end accounts in time for the commencement of the final audit. They expect that with an audit approach and a position of detachment, the auditors will find a few items which may call for adjustment, but the comments from the auditors are welcomed, not resisted; points of principle give rise to healthy exchanges of views, and any innovations of method or treatment will have been discussed before being introduced. It is not, therefore, just accountants in practice within the profession who are concerned with the setting up and the observance of accounting principles.

The impression should not be given that there are within a company two sets of accountants – the financial and the management – each producing their own, and different, sets of accounts. The board of a company, or its management, does not want to judge the progress of the company and take decisions as to its future on a set of accounts 'for management', and to find some months later that 'financial' accounts give a different result. Company accountants have, therefore, to find ways of improving their regular management accounting procedures so as to ensure that they are accurate, and that they are not called upon to explain large differences between internal and final year-end accounts.

The Institutes of Chartered Accountants do, of course, represent very large numbers of accountants who are commercially employed. Whilst the Institute of Cost and Works Accountants probably devotes more of its attention to the more advanced aspects of industrial accounting than others do, it is not the only one concerned with these matters. I write as a company accountant who is a member of an institute not represented on the ASSC yet having many thousands of members who are concerned about accounting principles – The Chartered Institute of Secretaries.

Yours faithfully,

Aylesbury, Bucks. B. M. GOSDEN.

Accountancy in an Industrial Society

SIR, – I have read the two articles over the signature of my old friend and colleague, W. F. Kissack, in your issues of April 15th and 22nd.

Having done so I am, I am afraid, little better informed as to the precise actions which Mr Kissack would recommend. I am, in fact, inclined to say as the Pope said to Galileo – 'What do you propose to do about it?'

Unless there is some answer provided to this question, it seems to me that the articles might very easily be felt to be rather on the lines of the closing words of Macbeth's soliloquy in Act V, Scene V. That would, of course, be entirely without the few words which suggest a personal reflection.

Yours faithfully,

London EC2 H. O. H. COULSON.

[Mr W. F. Kissack writes: The point raised by my old friend, H. O. H. Coulson, is perfectly justified; though possibly a little premature. Allowing for the fact that we live today in a world of haste and precipitation, is he not asking too much in expecting immediate and precise proposals in an introductory essay of less than five thousand words?

The scope and purpose of the two articles are limited to the formulation of a prima facie case. Before venturing further afield, is it not wise to pause and consider the possibilities of constructive development, under industrial initiative?]

Internal Auditors' West European Conference

COINCIDENTALLY, twelve countries were represented at the 12th West European Regional Conference of The Institute of Internal Auditors held at Grosvenor House, Park Lane, London, on Wednesday, Thursday and Friday of last week. The countries concerned were: Belgium, Denmark, Eire, France, Germany, Greece, Holland, Italy, Saudi-Arabia, Sweden, the United Kingdom and the United States of America.

Mr Frank Rigg, F.C.A., President of the London Chapter, chaired the conference and at the first business session introduced Professor A. T. M. Wilson, M.D., B.SC., Professor of Organizational Behaviour, London Graduate School of Business Studies, who spoke on 'Human aspects of management'. This gave a good start to a successful conference which proved to have a well-balanced team of speakers.

Mr H. P. Cemach, F.C.A., M.I.M.C., managing editor, Anbar Publications Ltd, provoked considerable controversy by stating that even if an internal auditor did not approve of a system, it was not up to him to design another. His job was to advise, not to overspill his duties into design and management. 'Look at it by all means', said Mr Cemach, 'but do not get involved'.

The cudgels were taken up against this postulation by several conference members, including Mr C. Duly, M.B.E., A.A.C.C.A., of Standard Telephones, and Mr M. Ward-Brown, A.A.C.C.A., of The British Steel Corporation. Mr Norman Smith, M.B.E., T.D., F.C.A., of Unilever, then attempted to bridge the gap by saying that although he agreed whole-heartedly with Mr Cemach's point of view, he also appreciated how often an internal auditor found difficulty in obtaining practical assistance from management to design a system superior to the one he considered unsatisfactory. What option had the internal auditor in these circumstances but to assist in every way he could? But this in itself could lead to involvement.

In answer to a question from Mr Rossi, of Alfa-Romeo, Italy, Mr Cemach conceded that internal auditors should be consulted on the necessity for a new system, particularly if it was a computer-based system. Security risks had to be minimized and the processing of documents watched very carefully, with print-outs being reduced where possible.

Computer audits

The second day of the conference dealt with the special role of internal audit in computer installations, and in his introductory remarks, Mr Rigg, before handing over the chairmanship of the session to Monsieur M. Lafleche, President of the Paris Chapter, said that internal auditors should reign supreme over external auditors on the subject of computer audits, and they should certainly come into their own when advising on the controls necessary in setting up and running a computer. This in fact was the subject of a talk by Mr A. Verschraege, managing director, Berenschot-Diebold, Brussels, who with the session chairman physically endorsed the international flavour of the proceedings.

Mr Frank Rigg, F.C.A., President of the London Chapter, *second from left*, in conversation with Mr B. G. Jenkins, B.A., A.C.A., *right*, and Mr C. W. Cardwell.

Areas of control were graphically described with visual aids and Mr Verschraege stipulated that controls were an integral part of a system from its origin to the final result; they nevertheless had to be in a favourable environment and supplied in written standards.

Naturally, controls cannot be recommended until a system has been appraised and it was the brief of Mr B. J. Brocks, A.I.M.T.A., F.I.M.C., M.B.C.S., of Price Waterhouse & Co, Management Consultants, of London, to deal with 'Appraising efficiency in computer installations'. Internal auditors had, undoubtedly, a valuable contribution to make in improving the efficiency of computer installations, and in Mr Brocks's view few computer installations were really efficient.

Furthermore, few managements – that was to say, boards of directors – were sufficiently knowledgeable about the subject and techniques of EDP to realize just what their computer operations really were. Because of the lack of EDP knowledge at the top management level, the 'specialists' at the second level of management had little or no technical guidance from above. Bearing in mind the mushroom growth of the industry, and the phenomenal rate at which it was possible to climb the promotion ladder, the specialists at the second level of management were often not of a very high calibre.

Mr Brocks stressed that a computer department should be represented at board level, probably by the finance administrative director, who should have taken an appropriate computer appreciation course to acquaint himself adequately with the principles and implications of electronic data processing. The first step of the internal auditor was to see how to control systems analysis and planning work, and

to ascertain whether or not use was made of standard procedure manuals for EDP staff. The time spent by programmers in compiling and testing programs should be reviewed in the light of the length and complexity of the program, as this time might reflect slipshod programming or carelessness in making corrections.

Equipment appraisal, Mr Brocks continued, was equally important and its suitability, including data preparation equipment, should be kept under constant surveillance in the light of developments in hardware, software and the user's requirements. Size of storage and speed of central processors were particularly relevant today because of the comprehensive software and communications devices that were now becoming available; the possible use of tape encoding equipment in lieu of card punches should also be considered.

Preparation of budgets

Just as the expenditure of any other department or division of a company's organization had to be kept within bounds, so had that of an EDP department. Budgets should be prepared for every aspect of its work, and comparisons made at not less than quarterly intervals with the actual expenditure incurred under such headings as: planning, operations and data preparation. In compiling budgets for planning work it was important to see that a proper reconciliation was made between the total of time estimates made for individual systems analysis and programming projects taking place during the year, and that of the establishment staff requirements of systems analysts and programmers.

He was firmly of the opinion that security of data-files, and particularly files which amounted to 'data banks', was a matter for the internal auditor's attention. Current public indignation was rife about the accessibility of information contained on computer data files, but from a technical standpoint it was a relatively simple matter to introduce the use of a secret codeword into the accessibility program so that only authorized inquiries might be processed; such a codeword could be changed at will.

The final address of the conference – but by no means the last item of a varied programme – was a most invigorating, entertaining, but at the same time very instructive talk by Mr B. G. Jenkins, B.A., A.C.A., of Cooper Brothers & Co, London. The session was chaired by Mr Norman Smith, M.B.E., T.D., F.C.A., director-at-large of the Institute, and with the aid of projector slides, and numerous examples of print-outs, invoices, statements and even threatening letters which he affixed to blackboards at the appropriate time, Mr Jenkins vividly described the use that could be made of test-packs and computer programs.

Audit test data

In using test-packs, Mr Jenkins explained, data was processed on operational programs, and the results compared with predetermined solutions manually calculated from test data. The processing could be done as a separate exercise using copies of master files or 'dummy' files set up for the purpose, or at the same time as live data. With more advanced systems the audit test data could be combined with the systems testing material. Practical points in such methods were that they restricted data initially to a reasonable simulation of the vast mass of ordinary data, avoided unrealistic data, and restricted the initial scope of the operator to testing important program checks and functions; additional tests could be 'grafted' subsequently.

When it came to computer audit programs, Mr Jenkins observed that these give faster and more accurate work, greater coverage and less paper work; moreover, clerical time could be better employed in examining significant items printed out for audit attention. Programs could either be written by the auditor, specified by the auditor and written by the company's programming staff, or written by an outside body; and there were now available specific audit packages.

The final business session of the conference was devoted to hearing reports and conclusions of the discussion groups that had met the previous day. A highly successful international conference closed with a plenary session on Institute domestic matters with the theme 'The Institute and you – the future in the Region'.

A general view of one of the discussion meetings.

STUDENT ROUNDABOUT

'The Future of Our Profession'

IMTA President's address to London Students

LONDON had anticipated the rest of the country in local government reorganization, and in future there would be fewer local authorities and fewer chief jobs. Speaking last week to members of the IMTA London Students' Society, the President of the Institute, Mr F. Stephenson, F.I.M.T.A., said that it was important that the opportunities available to the IMTA and particularly to its younger members should remain as attractive and as numerous as previously.

The emergence of new techniques and attitudes in the public service had led to a change in the basis of the treasurer's duties; there was a movement from the old 'stewardship' concept towards assistance and effective participation in management, and the treasurer was a member – in some cases the leader – of the management team. The Council of the IMTA were anxious that this widening of scope and area should be adequately recognized, and that the Institute's aspirations should be recognized in its title.

'The present complexity of the matters with which we deal would appal many of our predecessors', declared the President. Nevertheless, the IMTA had lost ground in areas where former municipal undertakings had been succeeded by service boards, and the Council in debating its future plans had embarked upon a process of diagnosis and remedy which, it was hoped, would enhance the influence of the IMTA throughout the public service.

Amongst the five essentials of the Council's 'future plans' package (*The Accountant*, April 1st), it was inevitably the proposals for admitting other persons to membership without examination which had aroused the most controversy. Mr Stephenson defended these proposals as affording the greatest opportunity for extending the IMTA's influence.

The difference between 'public finance' and 'accountancy' was perhaps

Mr Francis Stephenson.

best exemplified in the Civil Service, where there appeared to be too much academic specialization and not enough accountancy. The fragmented nature of local government in the past had inhibited full consultation with the central government in the early stages of planning. In the future, local authority finance planning would not necessarily be confined to IMTA members; but who should control these people, and to whom should they report?

The so-called 'back door' entry for members of other recognized bodies of accountants who held appointments in the public service had in the past brought some very able and distinguished people into IMTA membership, who had proved to be active and enthusiastic supporters of the Institute. It was not practicable to offer men of this calibre a sort of 'half-way house' membership; they were qualified professional accountants holding senior appointments in the public service, and as IMTA members they would extend its influence in this important field, for instance by encouraging their own staff to qualify for the IMTA.

In addition to the wider basis of examinations and training which was now considered necessary to meet the IMTA's future obligations, the image of public finance and accountancy as a graduate-equivalent profession would be more attractive to those non-accountants in this field for whom no natural forum at present existed.

Finance Crisis for ACASS?

STUART MCDONALD, M.A., A.C.A., Immediate Past Chairman of London CASS and Immediate Past President of ACASS, resigned from the London students' committee at its April meeting following strong disagreement with London's suggestion that the levy to ACASS should be collected in future in proportion to the number of votes held by individual societies at ACASS Council meetings and not, as in the past, on the basis of the number of members in each of the societies making up the Association.

He criticizes London's bid to halve its financial contribution to ACASS in this way, thus forcing higher payments on the other smaller member societies, and describes the Society's proposal as a 'ruse' to reduce its contribution by some £1,600. He states that this will involve levying societies according to a complex formula based on the votes held by each society at ACASS conferences and makes the point that the change will force the smaller societies to increase their subscriptions sharply: for example, Huddersfield would have to find £1·30 per member and Lincoln £3·30.

To further emphasize his opposition to the scheme, Stuart McDonald said this week that he would propose a resolution at the Society's annual general meeting on June 8th to try and

reverse 'this crazy and ill-considered move by the London students' committee'.

Inequitable

The committee's view on the matter, reflected in a letter to 'Roundabout' (March 18th issue) from Sheilagh Findlay, A.C.A., A.T.I.I., assistant treasurer of the Society, is that London is bearing an inequitable proportion of ACASS expenses. Last year it provided £3,300 and this was one of the reasons why an appeal had to be made to the District Society for a special levy to meet the year's deficit. The proposal to base the ACASS levy on voting strength would reduce London's commitments to £1,700 per year, which is regarded as a more reasonable figure.

However, initial reaction from the other societies to the change has revealed strong opposition and it seems very likely that the proposal will be defeated at the ACASS Conference in September. Does London then retire from the Association? If so, the recent successes and momentum of ACASS would be abruptly halted.

PROPOSED CROYDON BRANCH

To HELP meet the needs of students working or living in Croydon and the neighbouring areas, it is proposed to form a Croydon Branch of the London CASS and an inaugural meeting will be held at the Blue Anchor Hotel, Brighton Road, South End, Croydon, on Wednesday, June 2nd.

There will be beer and sandwiches – on the house' – between 6 and 6.30 p.m., after which the Chairman of the Croydon Society of Chartered Accountants, Mr I. W. Fawkner, F.C.A., will open the meeting. Mr Stephen Parry, B.A., A.C.A., will then outline the objectives of the students' society.

Students working or living in the Croydon area (City commuters welcome!) are asked to attend and contribute their ideas, particularly on the following matters: Time, place and frequency of meetings; local library and study facilities; lecture facilities and social activities.

Those wishing to attend, or who are unable to attend but would like to join the proposed new branch, should telephone John S. Cox, A.C.A. (01–654 0104/5), before May 29th.

HUDDERSFIELD'S AGM

MEMBERS of the Huddersfield CASS demonstrated their keen participation in the affairs of their Society at its seventh annual general meeting held on March 30th, when, among the many matters discussed, was the problem of effectively managing a small compact society on a limited subscription income.

The chairman, Mr D. Armitage, A.C.A., submitted the annual report, which was followed by a well analysed report on the accounts presented by the treasurer, Mr D. H. Ingram, who stated that the Society unfortunately had a deficit for 1970 of £30 compared to the previous year's surplus of £91. This, he said, was due to the autumn dance, which the previous year had contributed handsomely to that year's surplus.

Discussion followed on finances for the ensuing year and it was agreed in principle that the committee should arrange more social functions in order to aid the Society's funds.

The committee elected for 1971–72 is:

President: Mr D. Armitage, A.C.A.
Vice-Presidents: Mr P. G. Leach, M.A., A.C.A., and Mr R. G. Warrington, B.A., A.C.A.
Secretary: Mr J. D. Humphreys.
Treasurer: Mr D. H. Ingram.
Committee: Messrs P. J. Bloom, B.A., D. J. Cooke, M. G. Holmes, R. A. Kenworthy, B.A., G. S. Roebuck, P. C. B. Skuse, LL.B., S. G. Sutcliffe, and K. A. Wylie.

Changes Predicted in Accountancy Education

NEW ideas and hard thinking about education and training in the profession were referred to in speeches at the annual dinner of the Manchester Chartered Accountants Students' Society at the Midland Hotel, Manchester, last Thursday.

Mr G. R. Deakin, F.C.A., President of the Society, in proposing the toast of The Institute of Chartered Accountants in England and Wales, and of the guests, said that over the last 25 years there had been an enormous change in the concept of accountancy, but he was not too sure that similar changes had been reflected in the training of articled clerks.

Speaking on the question of district society schools and of the transferability of articles, Mr Deakin predicted a rapid change in accountancy education and accountancy services in the next decade.

ACASS not alone

Responding, Mr J. Whitehead, F.C.A., a member of the Council of the Institute, said that Mr Deakin was on firm ground when he suggested that new thinking was needed in the 1970s about the education and training of future members of the profession. ACASS was not alone in that belief, as he hoped was clear to some of its leaders when an informal discussion at the Institute was held recently about a number of problems.

A great deal of thinking was going on at Moorgate Place, for which credit did not belong entirely to ACASS, and much of which would have seemed revolutionary not long ago. On the new articled clerks' training record, Mr Whitehead said that in its present financial climate the Institute could not give it away free, but students might consider 50p was a moderate price for a principal to pay for the mutual advantage expected to be derived.

For voluntary use

The record – or experience log – was for entirely voluntary use, though there might be some moral persuasion to use it. At Institute level, they had every reason to think it would be well received, and properly used the record might help to solve some of the difficulties of which the Institute and ACASS were well aware.

Mr Whitehead hoped members would support the raising of minimum entrance standards, a step which many said should have been taken long ago. Graduate intake continued to grow, and there was increasing acceptance that, for the non-graduate, the nine-month polytechnic courses provided the right sort of start to the professional career. Those courses were not as yet entirely free from criticism, for it was alleged that some students emerging successfully from the course indicated

an alarming ignorance of the practicalities of double entry book-keeping.

Skill, continued Mr Whitehead, was probably learned more easily by early intensive on-the-job training, when it would be found that the debit was not always the side nearest the window. The real practical problem which faced both students and principals was that of trying to fit a quart of experience into a pint-pot of time, particularly as they were under pressure from some quarters to reduce the time measure. Post-qualification instruction was becoming a necessity.

He was aware of current thinking which challenged older concepts. He was sure there was great readiness at Council level to consider new ideas to improve education and training methods whereby the student might emerge as a chartered accountant of improved quality. It was quality which counted, not quantity.

More realistic

A distinct advantage lay with the student under the type of articles currently in use, though in the light of present-day practice developments it might well be more realistic for a student to be articled to a firm rather than to an individual partner.

Mr Whitehead said he was not at all sold on the free-transfer idea currently popular in student thinking. He felt it would not work out in practice, but perhaps an opportunity to control secondment within practising offices might offer advantage to some.

If everyone was bluntly realistic, the practitioner's practical order of priorities was to earn a living; give proper service to clients, and to train by experience a new generation of chartered accountants, some of whom might later become useful members of his staff and perhaps partners.

Despite the realism, however, he believed the majority of principals did their best to honour their obligations not least by the inculcation of proper standards of professional conduct and integrity, which above all they must strive to uphold.

The Mayor of Salford, Alderman Gerald Malcolm Joplin, J.P., proposed the toast of the Society and Mr P. I. Bowick, a member of the Society's committee, responded.

Notes and Notices

PROFESSIONAL NOTICES

BARTON, MAYHEW & CO, Chartered Accountants, announce that Mr C. J. M. BENNETT, B.A., F.C.A., who joined the firm in 1927 when he became articled to the late Sir BASIL E. MAYHEW, K.B.E., and has been a partner in it since 1937, retired from the partnership on April 30th, 1971.

BARTON MAYHEW & TURQUAND YOUNGS, Paris firm, announce that Mr STAFFORD IVAN DAVISON, A.C.A., has been admitted to partnership.

BOWKER, ORFORD & CO, Chartered Accountants, announce that as from April 30th, 1971, Mr E. H. ORFORD, F.C.A., has retired from the firm after an association of 34 years, and that Mr M. E. ORFORD, A.C.A., was admitted as a partner as from May 1st, 1971. The practice will continue under the same style and at the same address.

CURZON, RIX AND CO, Chartered Accountants, of 6 George Street, Colchester, Essex, announce that Mr ROGER BURGESS, A.C.A., has been admitted to partnership as from May 1st, 1971.

EVANS, RANKIN & CO, Chartered Accountants, announce that with effect from May 1st, 1971, they are joined in partnership by Mr CHRISTOPHER DAVID GITTINS, M.A., A.C.A.

FINNIE, ROSS, WELCH & CO, Chartered Accountants, of London, Glasgow and Leeds, and FREEDMAN & CO, Chartered Accountants, of Leeds, announce that they have merged their practices with effect from May 1st, 1971. On the same date, Mr M. J. W. VENNING, A.C.A., who has been with FINNIE, ROSS, WELCH & CO for some years, was admitted to partnership in the new firm. The Leeds office of the joint firm will be Harfield House, 122 Vicar Lane. From that address, it will practise under the names of FINNIE, ROSS, WELCH & CO and FREEDMAN & CO; the resident partners will be Messrs M. FREEDMAN, B.COM., F.C.A., MALCOLM ROSS, A.C.A., and M. J. W. VENNING, A.C.A.

Mr S. L. GAVURIN, A.A.C.C.A., announces that as from May 1st, 1971, he has commenced to practise from 105 Praed Street, London W2, in the name of S. L. GAVURIN & CO.

PANNELL FITZPATRICK & CO, Chartered Accountants, announce that their Kingston firm has merged with HEW AND HING, Chartered Accountants. The joint firm will practise under the name of PANNELL FITZPATRICK & CO, at 4 Ellesmere Road, PO Box 364, Kingston 10, Jamaica. The resident partners in the new firm will be Messrs PETER H. BROWN, DAVID C. MARTIN, GEORGE W. HEW, JOHN H. P. LISTER and WILLIAM J. DONOGHUE.

PEAT, MARWICK, MITCHELL & CO, Chartered Accountants, announce that Mr A. J. RICHMOND, A.C.A., has been admitted into their Sheffield partnership as from May 1st, 1971.

SHERWOOD, COHEN, FINE & PARTNERS announce that on April 30th, 1971, Mr S. L. GAVURIN resigned from the firm. The remaining partners continue to practise under the same name from London and Croydon.

SPAIN BROTHERS, NEWMAN & CO, Chartered Accountants, of Sutherland House, 29–37 Brighton Road, Sutton, Surrey announce that Mr JOHN V. NEWMAN, A.C.A., has been admitted a partner in their Sutton office from May 1st, 1971.

TOUCHE ROSS & CO announce that Mr M. G. R. HOSKINS, A.C.A., Mr C. F. MUSGRAVE, A.C.A., and Mr O. W. NEWLAND, F.C.A., were admitted to partnership in the UK firm on May 1st, 1971. The new partners will be located in the firm's Manchester, London and Bristol offices respectively.

WRIGHT, STEVENS & LLOYD, Chartered Accountants, of 50 Cannon Street, London EC4, announce that Mr I. M. MACDONALD, F.C.A., retired

s a partner on April 30th, 1971, and hat Mr M. F. TARRANT, A.C.A., who as been with the firm for some years, as been admitted as a partner from May 1st, 1971.

APPOINTMENTS

Mr John Ashton, A.A.C.C.A., A.C.W.A., as been appointed to the board of Spirella Group as financial director.

Mr C. K. Clifford, A.C.A., has been ppointed a director of the Eagil Trust Company. He remains as ecretary of the company.

Mr William I. Hamilton, F.C.A., as been appointed assistant general nanager and secretary of the Leicester Permanent Building Society with effect rom June 1st. He has been chief ccountant of the Society's office in Oadby for the past six years.

Mr W. I. Hamilton.

Mr A. A. Watt.

Mr Arthur A. Watt, C.A., has become financial director of Cooper & Turner.

Mr Derrick Cockman, F.C.A., has been appointed comptroller of the London & Edinburgh Group; Miss anet Walker, A.C.A., has been appointed assistant comptroller of London & Edinburgh General Insurance Co, and Mr William A. Dandy, F.C.A., has been ppointed assistant comptroller of London & Edinburgh Life Insurance Co.

Mr Leslie Fletcher, F.C.A., has been ppointed chairman of Glynwed.

Mr G. A. Raymond, F.C.A., has been reappointed chairman of Hastings nd Thanet Building Society for 971–72. Mr Raymond is senior artner in the firm of Creasey Son & Vickenden, Chartered Accountants.

Mr Mark Steer, A.C.A., has been appointed as financial controller of Diversey.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Annual and Special Meetings

The annual meeting of The Institute of Chartered Accountants in England and Wales will be held at Chartered Accountants' Hall, Moorgate Place, London EC2, at 10.30 a.m. next Wednesday, May 12th. The President's statement, and extracts from the annual report, were published in *The Accountant* for April 15th.

Following the business of the annual meeting, a special meeting will be held to consider two resolutions, the first of which seeks to raise the Institute's minimum entry standard to five GCE passes, including two at 'A' level, and the second to include the IMTA as a participating body for the purposes of the Joint Diploma in Management Accounting. The first resolution does not involve any amendment of the Institute's by-laws, but seeks endorsement of the Council's existing discretionary powers under by-law 52.

THE CHARTERED ACCOUNTANTS' BENEVOLENT ASSOCIATION

The annual general meeting of the Chartered Accountants' Benevolent Association will be held on May 12th at the conclusion of the annual and special meetings of the Institute.

ENGLISH INSTITUTE'S TEACHER TRAINING COURSES

Applications for the non-residential teacher training course to be held by The Institute of Chartered Accountants in England and Wales from June 28th to July 2nd have been heavier than expected and there will therefore be a second course at Chartered Accountants' Hall from July 12th to 16th. The course is primarily to show methods of teaching the following selected subjects which are included in syllabuses of the Institute and other accountancy bodies: financial accounting, management and cost accounts, law, taxation and estate planning, and auditing.

Each day will be self-contained, commencing at 9.30 a.m. and continuing until approximately 8 p.m. with opportunities at the last session for video tapes of proceedings to be played back. Luncheon will be available at the City of London Polytechnic, and dinner in the restaurant at Chartered Accountants' Hall. Cost of attendance is £25 for all sessions or £7 per day, excluding meals (which should not exceed 50p for luncheon and £1 for dinner). Applications to attend should be made, with remittance, to the Secretary, Education Committee, The Institute of Chartered Accountants in England and Wales, Chartered Accountants' Hall, Moorgate Place, London EC2R 6EQ.

IN PARLIAMENT

Unpaid Income Tax

Mrs RENÉE SHORT asked the Chancellor of the Exchequer what was the total of unpaid income tax at the end of each financial year from 1965 to the present year; and what proposals he has for encouraging payment on the due dates by those who do not come within Pay as You Earn regulations.

Mr HIGGINS: As the answer to the first part of the question contains a number of figures, I will, with permission, circulate them in the Official Report. Figures for 1971 are not yet available. As regards the second part, this matter is kept under close review. I have no proposals for change at present.

[The amounts of income tax unpaid but collectible at March 31st out of the charge raised in the year are as follows:

	£ million
1965	48
1966	90
1967	69
1968	89
1969	96
1970	118

The figures do not include tax under PAYE or Schedule 9 which are not normally assessed. Figures are not available

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of the collectible arrears at March 31st out of charges raised in earlier years.]

Hansard, April 27th, 1971. Oral answers, col. 214.

Earned and Unearned Income

Mr HILEY asked the Chancellor of the Exchequer what would be the cost of treating earned and unearned income on exactly the same basis in taxation assessments.

MR HIGGINS: About £250 million on the basis of 1970–71 figures.

Hansard, April 27th, 1971. Written answers, col. 58.

Value-added Tax: Local Offices

Mr DAVID REED asked the Chancellor of the Exchequer (1) whether Tees-side is being considered as a possible location for a major office to deal with value-added tax; and if he will make a statement;

(2) what estimate he has made of the number of local offices which will be needed to administer the proposed value-added tax; and how many Civil Servants each will employ.

Mr HIGGINS: We estimate that a network of about 100 offices and sub-offices will be needed, but the exact number, their location and the sizes of their staffs, will depend on the final decisions about the scope and coverage of the tax.

Hansard, April 29th, 1971. Written answers, col. 203.

SCOTTISH MANAGEMENT GAME

The first Scottish Management Game sponsored by *The Scotsman* in association with Aer Lingus-Irish and Honeywell Information Systems has been won by a team from Ethicon, a surgical sutures manufacturing company in Edinburgh. In second place were Graham, Smart & Annan, Chartered Accountants, also of Edinburgh.

As the winners, the Ethicon team, accompanied by a representative of *The Scotsman*, will fly to New York on May 24th, by Aer Lingus-Irish jet. While in New York, a programme of visits is planned to various firms in the New York area arranged by both Aer Lingus-Irish and Honeywell Information Systems.

ANNUAL TEXTBOOK AWARD

The Annual Textbook Award of the Society of Commercial Accountants has been made to Mr L. E. Rockley, B.COM., A.I.M.T.A., A.M.B.I.M., Principal Lecturer at Lanchester College of Technology, Coventry, for his book *Finance for the Non-Accountant*, published by Business Books Ltd.

The Award was instituted to accord some measure of recognition to the author and publisher of the book considered to be the outstanding students' text covering any part of the examination syllabus to appear during each calendar year, and takes the form of a cheque for £100 to the author and a presentation to the publisher.

CERTIFIED ACCOUNTANTS' TAXATION CONFERENCE

A one-day conference on 'Taxation and the family business' was held at the Connaught Rooms, London, on Saturday, April 24th, organized by the Central London Society of Certified Accountants under its President, Mr R. S. Waldron, F.C.A., F.A.C.C.A., F.R.S.A. It was attended by a lively and appreciative audience whose questions showed their keen interest.

Mr K. R. Tingley, F.A.C.C.A., of Taxation Practical Services, spoke on 'Tax planning for the new business', taking as his main points the two questions 'Is it practical?' and 'Does the client understand?'. The objectives were to reduce the total tax payable and to ensure that too much tax was not paid; there were advantages in a new business, in that no mistakes existed which had to be undone.

Mr Tingley dealt with sole traders, partnerships and limited companies and said that the latter still had the greatest potential for tax saving. Estate duty on shares ought normally to be less than on the assets in the company. Probably more than half the present number of close companies would be released from shortfall provisions by the new tax regulations. He also dealt with choice of accounts date and the time of payment of taxes. He warned, however, that Schedule E remuneration had disadvantages and that section 460 clearances (the old section 28) should be obtained if in doubt.

Mr T. A. Hamilton Baynes, M.A., F.C.A., of Chalmers, Impey & Co, spoke on 'Share valuations for estate duty and capital gains tax'. He spoke of the rules derived from the Finance Act 1894 and the Finance Act 1965. Usually the share register showed the sort of market open. The Finance Bill 1971 seemed likely to avoid clashes between the two rules. He spoke of the dangers of appeals in cases involving values, and referred to the *Lynell* case and the contrary decisions of the Courts. The effect of a company's articles on its share market was important. Future maintainable profits could be calculated but the calculation should stand up – if necessary, in Court! The calculations must involve present trends. The Estate Duty Office liked to compare public and private companies but such comparisons were rarely valid. He mentioned also the effect of contingent liabilities and commented on price/earnings ratios and earnings per share.

Mr Michael T. S. Pearman, A.C.A., of Hill, Vellacott, spoke on 'Tax planning for survival'. He said the most important word in tax planning was 'appears'. What tax law means is not always what it appears to mean. Tax planning referred to the future. He suggested attention to neglected areas – for example, assets not susceptible to capital gains tax such as owner-occupied property, or occupied by dependent relatives, or 'hobby' collections.

He foresaw the attempt to classify all share dealing as trading. Exemption of gains under the new Finance Bill would also lose the benefit of losses. Finally he reviewed 'tax havens' and 'offshore funds'.

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THE ACCOUNTANT

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A PAINFUL LESSON

THE NEW AGAG

INSTITUTE'S ANNUAL MEETING

ANNUAL AWARD PRESENTATIONS

THE CASE FOR A SHAREHOLDERS' COMMITTEE

SOURCES OF FINANCE FOR CLIENTS

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THE ACCOUNTANT

Established 1874

Vol. 164. No. 5030

May 13th, 1971

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A Painful Lesson

OVER the space of 90 years, commentators from Mr W. S. Gilbert in 1882 to Mr P. J. Hughes in our issue of April 1st have advised the professional man against undertaking work that he is unable to do, and several individuals who are named in the inspectors' recent report on the affairs of Pinnock Finance might usefully have profited from that advice.

Readers of this journal, we have no doubt, are quite capable of drawing their own conclusions from the fact that Mr William Ross Wright disappeared from the scene in April 1967, three days after the Pinnock collapse, and that his indebtedness to the group is estimated by the inspectors at £1 million.

The financial structure of the Pinnock Group, at least as far as it concerned British depositors, was neither remarkable nor particularly original. There have, after all, been previous examples of 'banking' companies which solicited deposits from the public at attractive rates of interest, and employed those funds to finance the speculative ventures of associated companies.

The value of investments in various Pinnock associated companies was the cause of serious concern as long ago as 1961, and the profession may well ask how, despite the stringent safeguards of the Companies Act 1948 and the Protection of Depositors Act 1963, the group was able to remain in business until March 1967.

In the words of the report, 'Mr Wright appears to have had the knack of surrounding himself with executives whose loyalty was considerably in excess of their business acumen.' This, unhappily, applies with equal force to several of those who as accountants or auditors had responsibility for the Pinnock accounts.

The expression 'a tame auditor' is one fortunately now little heard, but is applied by the inspectors to Mr J. N. Irvin, F.A.S.A., the former secretary of the Pinnock group in Australia, who was 'imported' into the United Kingdom in 1962 and who by virtue of his Australian qualifications was apparently able to obtain accreditation under section 161 of the Companies Act 1948.

Mr Irvin exchanged the normal professional courtesies with his predecessor in office, Mr P. Ellison, B.A., C.A., from whom he received the clearest indication that a number of matters affecting Pinnock's 1961 accounts had not been satisfactorily resolved. Despite this warning, Mr Irvin gave an unqualified report on the Pinnock accounts for 1962, 1963 and 1964. We can hardly dispute the inspectors' view that 'we cannot understand how Mr Irvin was able to issue an unqualified report on the 1962 and subsequent

accounts. We consider that Mr Irvin as a qualified accountant . . . discharged his duties in such a way that he was at the least negligent.'

Mr Irvin was succeeded as auditor by Mr L. A. J. Shute, F.A.C.C.A., who at that date was recently qualified and who, as the inspectors found, was at a grave disadvantage in dealing with a company of the size and complexity of Pinnock. It is more than doubtful, in view of Mr Shute's lack of experience and with the limited staff and time available to him, whether Pinnock's accounts for 1965 were subject to an adequate or satisfactory audit.

Whilst it is clear that Mr Shute at least appreciated the significance of a proper evaluation of Pinnock's investments in associated companies, he unfortunately succumbed to pressure from Mr Wright on the grounds that the time limit for filing accounts had nearly expired, and that a qualified report would have been very damaging if in the event it was unjustified.

In addition to the shortcomings of Mr Irvin and Mr Shute as auditors, the report is critical of several of the company's officials who must surely have been well aware that much of the company's literature from 1963 onwards was misleading in its content and impression. Amongst those affected by this observation, Mr D. J. Wheeler, F.A.C.C.A., the Pinnock group chief accountant, apparently took the view that if the auditors did not insist upon any provision against the diminution in the value of advances to associated companies, there was no reason why he should. Mr Wheeler, the inspectors say, 'seemed to regard himself merely as a book-keeper . . . rather than as a member of a professional body whose responsibility should have been to interpret the facts'.

It is easy to criticize, with the benefit of hindsight, the decisions which others have had to take at the time; nor do we under-estimate the difficulty of taking a firm stand from a position of limited capacity and experience. By the nature of their calling, however, accountants and auditors are placed in a position where a firm stand may be necessary; they have the resources of their professional society on call, and they undertake work beyond their own personal competence at their peril. Eight million pounds is a high price for depositors to pay for the doubts which several members of the profession clearly felt but failed to express.

The New Agag

TO recognize a problem is not to agree upon a remedy – a truism that has particular force with regard to inflation, where so many judgements are subjective. Some people – for example long-term borrowers – stand to profit by continuing inflation, whilst politicians' assessments are marvellously affected according to whether they find themselves in government or in opposition. Directors are unlikely to favour a concept of 'inflation accounting' which leads (as suggested in *The Accountant* of January 28th) to lower disposable profits, whilst the Inland Revenue cannot be expected to give its blessing to such ideas until they become accepted commercial practice.

Into this conflict of interests, the Accounting Standards Steering Committee is walking with more than usual delicacy. Before attempting to issue an exposure draft on the possible recognition in financial statements of changes in the purchasing power of money, the ASSC last Monday initiated a frank exchange of views with government departments, representatives of the CBI, the Stock Exchange, the City Take-over Panel and investment analysts, as well as of those bodies of accountants which at present are not directly represented on the committee.

Accountants and the business community are, of course, already familiar with the underlying principles of converting one currency to another – in the present context, of historical £s into today's £s. There would be no breach of principle in disclosing equivalent figures in terms of current purchasing power – calculated, perhaps, by reference to an independently authoritative source such as the consumer price index – alongside the historical figures in published accounts. This would give rise to an ultimate balancing figure of 'differences on exchange' – that is, the result of changes in the purchasing power of money.

If it ever becomes standard practice to show 'historical' and 'current' values in straight comparison, item by item, some salutary effects can be anticipated. With the full extent of the problem thrown sharply into relief, governments would come under increased pressure to control inflation, to produce consumer indices more promptly, and to allow for the effects of inflation in the fiscal structure. Reappraisal of companies by investment and credit analysts may cause directors to consider real profitability more closely –

particularly if the payment of dividends can be justified on historical figures, but appears doubtful or inadmissible at current prices. Documentary evidence would be available on which to resist wage or price increases not linked to productivity or merit.

These are not necessarily the principal or the only points which will emerge from the ASSC's present dialogue with those on whose support it must depend. The committee nevertheless has before it the prospect of a more venturesome approach to inflation accounting than we have yet seen, and which could put Britain in the forefront of practical accounting thought.

Council Accused of 'Mismanagement'

Lively Debate at ICA Annual Meeting

THE substantial deficit revealed by this year's accounts of The Institute of Chartered Accountants in England and Wales provided the principal talking point at last Wednesday's annual meeting. Several members expressed concern at the Institute's apparent lack of budgetary control, the extent to which estimates had been exceeded and the large debits in respect of exceptional expenditure.

President's statement

Moving the adoption of the report and accounts the President, Mr C. Croxton-Smith, M.A., LL.B., F.C.A., said:

My review of the year's activities is set out in my statement in the annual report. I do not think there is any need for me to enlarge greatly on this, but before I formally move the reception of the report and accounts there are a few matters to which I wish to refer.

There has been some criticism of the timings of the documents issued to members for this meeting. The documentation in connection with both today's meetings was in fact posted to all members on April 14th – that was a Wednesday.

Institute mailing shots are dispatched by a bulk rebate mailing service, in order to reduce the very substantial postal charges involved. Although under this service the Post Office does not guarantee delivery on any particular day, experience suggests that the bulk is delivered three to five days after dispatch. The reports in the national press appeared on Monday, by which time it was assumed that members would have received their copies of the documents. Regrettably the aftermath of the postal strike and the work to rule by British Rail appear to have had the effect that a number of members received their papers after April 20th.

Future development

Last month an announcement was published giving three main recommendations of the Special Committee [*The Accountant*, April 29th] which have been accepted in principle by the Council and also supporting the raising of the standard for entry into articles, which comes before you at the special meeting which follows this annual meeting. It is a considerable task to review the whole future of this Institute, but progress has been made, and I hope that further recommendations can be announced later this year.

In my statement with the annual report, I anticipated that my successor would submit proposals to members in the autumn for an increase in subscriptions. I should make it clear that vigorous and continuing attempts are being made to achieve economies with a view to holding down expenditure this year and avoiding the necessity of seeking a subscription increase next year. The position will be reviewed at the end of the half-year on June 30th.

You would expect me to say something about the cost of computerization. It should be stated that the computer system is already offering both operating advantages and cost savings over alternative systems. The difficulties encountered have not been with the computer system itself but with the conversion of records. Before the system could operate, records for 50,000 members, 8,000 firms and 13,000 offices had to be converted to computer form.

Prior to the introduction of the computer system, no single record existed for a member or a firm. Thus, in the conversion process, a single record had to be created from several different records. Moreover, through the years, the form and content of these existing clerical records had changed several times.

The time and cost of ensuring that the record transferred to the computer was complete, correct and consistent in these circumstances was substantially underestimated.

Moreover, despite favourable references from a leading bank and a major commercial company, the original data conversion contractor completely failed to carry out the work of converting the information to computer readable form before going out of business. This not only caused over six months' delay, it broke the controls established over the input data and introduced substantial errors.

As a result, a file conversion process begun in February 1969 was not completed until March 1970 and at that time contained so many errors that it was not until November 1970 to January 1971 that the file could be used. During this period, two years updating of computer data had to be carried on in parallel with a manual system, at an additional cost in the region of £40,000, which has been included in the cost of computerization.

The Deputy-President, Mr A. H. Walton, F.C.A., formally seconded the resolution.

Mismanagement

One of the most vigorous critics in the ensuing discussion was Mr A. B. Patrick, F.C.A., who expressed himself 'appalled' that the Institute's affairs had been so mismanaged. It was, he said, highly irresponsible to finance long-term

assets by £2 million of short-term debts. With a deficit approaching £400,000 on last year's accounts, it was 'grossly arrogant' for members of the Institute to attempt to advise others. He asked what steps were being taken to put the Institute's own house in order, apart from increased subscriptions.

Replying, Mr Stanley Dixon, M.A., F.C.A., a Past President and chairman of the General Purposes and Finance Committee, admitted to feelings of 'considerable uneasiness and disquiet'. It was easy to have the wisdom of hindsight, but the present position was foreseen. The estimated deficiency for the years 1968–70 had been £460,000 and the actual figure £410,000. Following members' rejection of an increase in subscriptions in 1968, it had been decided to leave the question of subscriptions in abeyance, with full knowledge of the probable revenue deficiencies, until the outcome of the integration scheme.

The facts had been put before members at that time: it would have been impossible to halt the construction of Chartered Accountants' Hall, to withdraw from the integration proposals, or to discontinue other important services to members. The Council, he thought, had taken the right decision in the light of the information available at that time, and the consequences had been made clear to members. The short-term funding of development expenditure had been taken on the best available advice and had been justified by recent movements in interest rates.

Independence imperilled

Mr Jack Clayton, F.C.A., a former member of the Council, thought it would be a sad day when he had to accuse his successors of mismanagement; given more time and less sabotage, he thought that the Council might solve its problems, but they should have demonstrated their ability to balance a cash-book before issuing mandatory accounting standards. He was concerned that the Institute appeared to be 'bowing to City and academic pressures'; this, he said, was imperilling the independence of the Institute, and the Council was listing this way and that like a rudderless ship.

The Institute was the greatest body of accountants in the world and had done more than anyone else to develop the science of accounting, despite the 'half-baked' attempts of Professor Stamp to bring the ivory tower down to the market place. Take-over bids Mr Clayton described as 'legalized banditry', and he was not worried if one of the bandits got hurt in the struggle.

Mr Clayton was particularly critical of academics who had no connection with the real world of accounting, and he described Professor Stamp as 'the Cassius Clay of accounting, beating his chest and saying "I am the greatest".' He was surprised that the Council had taken the professor at his face value. Part two of *Accounting Principles and the City Code* he regarded as nothing more than an impudent take-over bid by Professor Stamp for the research facilities of the Institute.

Sir Ronald Leach, C.B.E., F.C.A., chairman of the Accounting Standards Steering Committee, reminded the meeting that in 1969 the profession had encountered a heavier volume of criticism than ever before, from responsible sources, and something had had to be done. The 1969 Statement of Intent (*The Accountant*, December 18th, 1969) had been received with almost unanimous approval, and at the last annual meeting no member had criticized the Council's policy. People who made rules were generally unpopular, but the response from the ASSC exposure drafts had been gratifying. Inevitably there had been disagreement, as in making a decision it was necessary to come down on one side or the other.

On the subject of price level accounting, Recommendation No. 15 had been issued in 1952, but in Sir Ronald's view still seemed 'to have a lot of basic common sense in it'. With inflation currently running at a rate of 8 per cent per annum, it was not a subject which the profession could ignore, but the ASSC did not propose to issue a standard of practice without first obtaining substantial views from those concerned.

The question of professional indemnity insurance was raised by Mr John Denza, M.A., F.C.A., who claimed that his firm had recently been quoted a premium 10 times the 1966 figure and that the Institute's scheme had proved rather more expensive than their existing underwriters. It was, he said, 'quite absurd' for a firm which had gone 50 years without a claim to be quoted a premium of 3 per cent of its gross fee income. He quoted from *The Accountant* of April 23rd, 1970, that an American 10-partner firm could obtain cover for $1 million for 'less than £200 a year'; in this country it might cost £9,000. The profession should look for alternative ways of protecting itself, possibly by the contractual exclusion of liability for negligence wherever possible, and with limited liability as the long-term aim.

Replying, the President said that the Institute had taken counsel's opinion on the matter, and the question of limitation of liability was now under consideration by a subcommittee. Under present legislation, it was not permissible for the auditor as an officer of the company to contract out of the consequences of his own default.

Lack of communication

Very little had been done to improve communications with members, claimed Mr F. A. J. Couldery, F.C.A. He returned to the question of a free journal, which he had pursued at intervals since 1966. At present, members received 'infuriating bits of paper' 11 or 12 at a time, and he wondered what would happen if clients were issued with their accounts in the form of 'a do-it-yourself kit with a stapler'. Apart from the annual and requisitioned special meetings of 1968, only edited and not verbatim transcripts of meetings were available, he said, and it was impossible to discover what went on at an annual meeting without actually being there.

Several other members who spoke were concerned to note that the Institute had apparently had no effective budgetary control until last year, and that a fee of £10,000 had been paid to consultants for advising on installation of a suitable system. Replying to this point, Mr Stanley Dixon said that the Institute had considerably strengthened its staff on the accounting side, and this was necessarily reflected in increased administrative expenditure.

SPECIAL MEETING

Following the annual meeting, a special meeting was held to consider two resolutions of which the first endorsed the Council's proposals to increase the minimum standard for entry into articles to five GCE passes including not less than two at 'A' level, and the second sought to extend membership of the Joint Diploma in Management Accounting to The Institute of Municipal Treasurers and Accountants.

On the first of these resolutions, Mr H. O. H. Coulson

said that the Institute lacked any conclusive evidence about the comparative performance of 'O' and 'A' level candidates, although he felt that neither standard was the equivalent of the old School Certificate. Several members evidently agreed that there was increasing evidence of a lack of familiarity with the English language.

Mr John Denza alleged that grammar schools were being undermined and would ultimately be destroyed as an act of political expediency, and that a considerable number of able children would not get 'A' levels because they happened to live in the wrong areas. The Institute should not, he said, cut out any good people from motives of elevating its own status; this was 'a smug, arrogant attitude which deserves damnation'.

Mr B. V. Piggott, F.C.A., J.DIP.M.A., referred to his own early experience and said that the Institute should be slow to exclude the 'O' level entrant. In his view the alternative ONC path to qualification was an important provision, which for him would save the resolution.

A poll on the resolution was formally demanded by the President, the result of which was as follows: for the resolution 4,709; against 736.

The second resolution, to extend the coverage of the JDipMA examination to members of the IMTA, provoked no discussion from the floor. A poll was again demanded, and the result declared as follows: for the resolution 4,693; against 714.

Before the conclusion of the meeting, the President announced that the design for an Institute tie had now been approved, and drew attention to the fact that he was wearing one of the advance samples. Supplies were expected to become available during June.

CURRENT AFFAIRS

Finance Bill Under Fire

THE London and District Society of Chartered Accountants evidently sees no prospect of an early check to inflation. Commenting on clause 12 of the Finance Bill (which deals with retirement annuities for the self-employed), the London regional technical advisory committee says that 'the original limit of £750 has proved quite unrealistic, largely by reason of inflation since 1956', and suggests that the proposed new limits of £1,500 and £500 will become equally unrealistic in time. The committee favours a percentage limitation only, and would like to see fixed limits abandoned in order to put self-employed persons on a par with members of occupational pension schemes.

Another hazard for those nearing retirement occurs in paragraph 12 (4) of the Second Schedule to the Bill, which (in the context of approved pension schemes) defines 'final remuneration' as the average of the last three years' service. This, in the words of the London report, 'will cause hardship in cases where emoluments fluctuate, or an individual "eases off" in his last few years'.

Clause 32 of the Bill introduces a new definition of 'industrial purposes' which London would like to see applied to an 'industrial building' as previously defined in section 7 of the Capital Allowances Act 1968. Clarification is sought of the application of clause 32 to pipelines falling partly within and partly outside a development area; and clause 32 (6) does not at present meet the Government's declared intentions, in last October's White Paper on Investment Incentives, in relation to building and civil engineering work.

The committee boldly calls for the total excision from the Bill of paragraphs 4, 5, 7, 8 and 9 of Schedule 9, which it describes as 'an unnecessary complication'. It is appreciated that these paragraphs are an anti-avoidance provision, but the same objective should be achieved under section 30 of the Taxes Act 1970. Amongst a number of detailed observations extending over nine foolscap pages, deferred surtax under clause 16 should be spread by three instalments over two years, without interest, and clause 17 (4) (*b*) appears to give an unreasonable retrospective advantage to the taxpayer who delays.

Silence Not Participation

AN accountant acting as company secretary and also as its financial adviser was not knowingly a party to carrying on the company's business with intent to defraud, simply by reason of his omission to give advice. In the Chancery Division last week, Pennycuick, V.C., held that some positive act was necessary to bring a person within the operation of section 332 of the Companies Act 1948.

Mr R. F. Penney, F.C.A., appeared on a summons brought by the liquidator of Maidstone Building Provisions Ltd, under section 332, seeking an order that Mr Penney and certain of the company's directors should be made personally liable for the debts of the company. It was alleged that, in his dual capacity as company secretary and also as its financial adviser, he knew that the company was insolvent and had omitted to take steps to prevent it from continuing to trade.

Giving judgment, the Vice-Chancellor said that there was no doubt that section 332 was a penal section and must be construed as such. He found it impossible to accept the contention that Mr Penney, in failing to

give advice, rendered himself liable as a person who was in some way party to carrying on the business in a fraudulent manner.

Streaming the Association

ALTERNATIVE examination syllabuses for students training in professional offices and for those from industry are under consideration by the Council of The Association of Certified and Corporate Accountants. This is intended to give proper emphasis to the differing requirements of each group.

The Association announced earlier this year ('The Association's Way Ahead', *The Accountant*, January 14th) that its plans for future development would include a complete modernization of the examination structure. The new requirements, like those of other recognized bodies of accountants, will be geared to a minimum entry standard of two 'A' levels, and are expected to become effective during 1973.

The position of existing students under the present regulations will, it is stated, be fully protected.

Stock Valuation Dispute

DESPITE powerful dissenting judgments by Lord Reid and Lord Dilhorne, the House of Lords last week dismissed by a majority the taxpayer's appeal in *BSC Footwear Ltd v. Ridgway* (49 A.T.C. 1), thus upholding the decisions of the lower Courts.

The appellant company was a shoe retailer, and for 30 years had valued unsold stock at replacement value, i.e., the wholesale cost that reflected the normal percentage rate of profit on a retail sale at reduced prices. The Inland Revenue, after having accepted this for many years, challenged it and claimed that the amount to be taken was either cost or the figure expected to be realized in due course on sale in the retail market, if lower than cost.

Giving judgment, Lord Morris said that the question was which basis would show 'the full amount of the profits or gains' of a particular year within section 127 of the Income Tax Act 1952. The Special Commissioners had regarded it as established law that, in computing profits for tax purposes, stock-in-trade could be entered at cost or market value whichever was the lower, but that it was not permissible to enter stock at a value (being below cost) which was lower than what was sufficient simply to anticipate the loss expected when the goods were sold. Although there was no substantive rule of law to that effect, the formula was time-honoured and had often been accepted as providing a convenient method to ascertain profits or gains.

The company's figures were mathematical and not market figures and were used as a means of adjusting accounts whereby an anticipated diminution of future profits could be brought into current account. That method made a considerable inroad on the broadly-accepted principle that neither expected future profits nor expected future losses were to be anticipated.

Relief Limited to 'Tax Paid'

SHELL PETROLEUM AND BP were not entitled to recover tax at the standard rate on management expenses, under section 425 (1) of the Income Tax Act 1952, against investment income which itself had been taxed at less than the standard rate. This is the effect of a decision of the House of Lords on May 5th in *Shell Petroleum Co Ltd v. Jones* and *British Petroleum Co Ltd v. Cropper* (48 ATC 431).

The taxpayers were investment companies having income of three kinds: dividends out of profits not subject to foreign tax from which the full standard rate had been deducted; dividends from companies entitled to double tax relief but from which standard rate tax had been deducted; and foreign income on which the taxpayers were directly assessed but were entitled to double tax relief. The taxpayers were not assessed under Case I of Schedule D.

They claimed management expenses relief, arguing that the words 'the amount of the tax' in section 425 meant tax at the full standard rate. The Revenue contended that the words meant tax at the rate effectively borne by the various parts of the income in question, but conceded that the management expenses could be set off primarily against the income taxed at the higher rates. The Revenue's contention was unanimously upheld, except that no opinion was expressed as to the rightness of the concession.

Bad Management

A HORRIFYING state of affairs is revealed by the report of the Parliamentary Commissioner for Administration into the tax affairs of Mr A. W. Farrow of Swindon.

At the age of 67, Mr Farrow received a demand for £195 arrears of tax in respect of 1967–68 and subsequent years. He had rendered prompt and accurate returns of his income, and the arrears had accumulated as a result of coding errors by the Inland Revenue. When Mr Farrow disputed the arrears, his Inspector of Taxes (who had already disregarded standing instructions in raising the assessment without first writing to the taxpayer) decided not to reply on the grounds that 'it will only stir up more trouble than it is worth'. The Inland Revenue had eventually agreed to accept payment of the arrears by instalments that would continue until Mr Farrow was 72.

In the course of an adjournment debate earlier this week, the Financial Secretary to the Treasury frankly admitted that this was a bad case which should not be taken as typical of the standard of work in the Inland Revenue as a whole. Despite the Parliamentary Commissioner's view that the arrears should be waived in whole or part, Mr Farrow's income and means were above the 'hardship' level at which waiver of tax would be justified.

As reported in *The Accountant* for February 11th, a Parliamentary Select Committee has recommended

that *ex gratia* compensation for Revenue errors should be considered without sole regard to the degree of hardship caused. The Chancellor of the Exchequer hopes to table the Government's comments on the committee's report 'fairly soon'. Meanwhile, the Revenue view remains that where the taxpayer has had the use of the relevant income, the tax must be collected.

Questions in Parliament

A COOL approach to the Chancellor of the Exchequer is expected next Tuesday, when Mrs Sally Oppenheim (Cons, Gloucester) is to ask for the abolition or reduction of purchase tax on ice cream.

Sir Brandon Rhys Williams (Cons, Kensington, South) is demanding a White Paper on the integration of the income tax and social security systems. He is also asking how many occupational pension schemes which give automatic post-retirement increases in entitlement to benefit of 2½ per cent per annum have been approved for tax purposes; how many have been approved with automatic increment provisions which may give larger increases; and how many beneficiaries stand to gain by such provisions in each case.

Mr Kenneth Baker (Cons, St Marylebone) will ask whether Mr Barber has yet decided how many rates of value-added tax are to be used. Mr Piers Dixon (Cons, Truro) wants to know what proposals the Chancellor is considering for applying the tax to house purchase.

THIS IS MY LIFE

Coming into the Open

by An Industrious Accountant

THE deputy-chairman of our board is considered responsible for general maintenance and construction of premises, a sphere of work sufficiently wide in our haphazardly-enlarged old store to keep him permanently busy. He's forever planning bigger and better buildings, ramps, wings, parking lots, and so on, thus maintaining personal delusions of grandeur, as he doesn't really have any significant function otherwise.

From an accounting standpoint, he's a menace. His justifications in pay-off terms are approximate and over-optimistic, and he always over-runs his budget. Unforeseeable escalation, he mutters, shrugging off the discrepancy.

But last week he came wandering around the offices with a knitted-brows effect, casting calculating glances at ceilings and corners. Our grapevine commenced to rustle with frantic speculations, so at length I asked him was there anything we could do to help him.

He looked down on me from a height, so to speak, for a moment, then suddenly unbent into a conspiratorial whisper. The modern thing, he indicated, was the open-plan or landscaped office. He was considering removing dividing walls and partitions and having one big open space instead. A brilliant innovation, what?

I retained sufficient *savoir-faire*, even in that moment of shock, to reject the first terse comment that occurred to me, and compromised with vague noises of judicious admiration. Finally, I asked him just what, precisely, was the pay-off?

He seemed surprised at my ignorance. A substantial reduction in overall office costs would result, he explained. Elimination of the walls would give extra floor-space, worth quids per square foot nowadays, and would optimize communications at all levels. Chaps wouldn't need to phone around, or send memos, or make elaborate dates. Instead they could just stroll across for a chat, and convene meetings simply by beckoning one another.

Where necessary, he continued with a kindly descent to my level, we could install coloured acoustic screens to maintain privacy, or perhaps some potted plant would help.

Half my mind was remembering the resentment in a nearby computer-components factory when glass partitions were introduced, the staff complaining that they felt under a microscope. The other half was conscious that in an eight-hour day some basic privacy was essential, be it only to scan the morning newspaper or write a personal cheque. . . . There'd be too many interruptions, I objected, chaps butting in regularly on other chaps immersed in calculations, or outsiders like salesmen looking at our tabulations.

The DC thought not. It would improve morale and all that nonsense, he said; chaps would feel they belonged to a team instead of being isolated. Besides, speeding up the work would probably reduce staff in the long run and get rid of some dead wood. Why, the designer chap who sold the screens had estimated a 25 per cent savings in staff costs alone.

The likelihood of 25 per cent staff cuts boosting morale seemed a long shot, even with a few assorted aspidistras thrown in, but tact was essential. Perhaps we could look at the designer's basic figures, I ventured, as the landscape metaphor was rather obscure.

The DC grunted even more obscurely and departed, leaving me wondering uneasily whether he had any particular top-level dead wood in mind.

Lord Shawcross presents *The Accountant* Annual Awards to the Winning Companies in 1971

PRESENTING *The Accountant* Annual Awards for 1971 to the chairmen of Transport Development Group Ltd and Crown House Ltd at Merchant Taylors' Hall, London, last Thursday, Lord Shawcross, Chairman of the Panel on Take-overs and Mergers, said that everybody – shareholders, the investing public, the City and employees not the least – must welcome the urgency with which the accountancy profession is attempting to lay down a number of common standards of practice on matters which in the past have been susceptible to different methods of treatment. It was essential, he said, that those who read accounts should be able to understand what methods were being followed and he hoped that the growing body of standard practices would ensure that the same methods were used in all accounts.

In this process of encouraging the fullest and the clearest and most informative presentation of accounts, Lord Shawcross said that *The Accountant* had for long past played a very notable and very valuable part, and this not the least in the presentation of the Annual Awards.

The Awards for 1971 were presented in the presence of a large and distinguished company representing the City, the professions, industry and commerce. Mr Percy F. Hughes, Editor-in-Chief of *The Accountant*, presided, and also on the platform were the representatives of the winning companies, Mr William Fraser, O.B.E., M.A., M.INST.T., Chairman of Transport Development Group Ltd, and Mr Patrick Edge-Partington, F.C.A., Chairman of Crown House Ltd, together with Mr A. H. Walton, F.C.A., Deputy President, The Institute of Chartered Accountants in England and Wales; Mr R. P. Crout, F.A.C.C.A., President, The Association of Certified and Corporate Accountants; Mr S. E. Woods, F.C.W.A., F.A.C.C.A., President, The Institute of Cost and Works Accountants; Mr Francis Stephenson, F.I.M.T.A., President, The Institute of Municipal Treasurers and Accountants; Mr Charles H. Nicholson, F.C.A., Vice-President, The Institute of Chartered Accountants in Ireland; Mr A. Peter Rivers, F.C.A., F.C.I.S., Immediate Past President, The Chartered Institute of Secretaries; Mr Roy Borneman, Q.C., Chairman of the Panel of Judges of *The Accountant* Annual Awards, and the following members of the Panel: Mr P. C. Barnett; Mr T. A. Hamilton Baynes, M.A., F.C.A.; Mr W. G. Campbell, B.A., F.C.A.; Mr Robert Knight, F.C.I.S.; Mr Trevor W. Macdonald, C.A.; Mr Anthony Mallinson; Mr W. S. Risk, B.COM., C.A., F.C.W.A.; Mr Arthur E. Webb, Editor of *The Accountant*, and Mr Peter Chapman, Secretary of *The Accountant* Annual Awards.

Lord Shawcross, *left*, with Mr William Fraser and Mr Percy F. Hughes.

THE CHAIRMAN'S ADDRESS

In the course of his opening address, Mr Percy F. Hughes said:

'May I extend to you all a very warm welcome to this, the eighteenth presentation of *The Accountant* Annual Awards. To the Master and Wardens of the Merchant Taylors' Company, I would express the thanks of us all for their kindness in permitting us to use this beautiful Hall. They may be sure that this is a privilege we all appreciate.

'Notwithstanding his very many onerous commitments, Lord Shawcross very readily accepted my invitation to make the presentations this year and we are most grateful to him for coming today to carry out this task. Following a distinguished career at the Bar and a busy life in the world of politics, he now combines the duties of Chair-

Lord Shawcross with the chairmen of the winning companies after the presentation of the Awards: Mr William Fraser, O.B.E., M.A., M.Inst.T., chairman of the Transport Development Group, *right*, and Mr Patrick Edge-Partington, F.C.A., chairman of Crown House.

man of the Panel on Take-overs and Mergers with a number of other appointments, but I will spare him the embarrassment of taking you through the list and confine myself to congratulating him on them.

'Although our Annual Awards Panel attracts less publicity during its session period than does the Panel on Take-overs and Mergers with which Lord Shawcross is concerned, its members find that it gives them much scope for argument and discussion, happily in an atmosphere which is always charged with goodwill. Mr Roy Borneman, Q.C., has again been Chairman of the Panel and the other members have been unchanged from last year except that this year Mr W. S. Risk succeeded Mr Ian Morrow, who had served on the panel for eleven years and felt that he should retire in view of his other commitments, some of which I fear he may have found somewhat onerous.

'My thanks are due to them all for everything they do to ensure the success of this scheme and I am most grateful to Mr Peter Chapman for his continued work as the Secretary of the Panel.

'It is always a delight to have on this occasion the support of the various professional bodies and this year The Institute of Chartered Accountants in England and Wales is represented by the Deputy President, Mr A. H. Walton, The Institute of Chartered Accountants in Ireland by the Vice-President, Mr Charles Nicholson, The Association of Certified and Corporate Accountants by its President, Mr R. P. Crout, The Institute of Municipal Treasurers and Accountants by its President, Mr F. Stephenson, The Institute of Cost and Works Accountants by its President, Mr S. E. Woods, and The Chartered Institute of Secretaries by the Immediate Past President, Mr A. Peter Rivers, but unfortunately an Institute function in the happy atmosphere of Gleneagles has kept away a representative of The Institute of Chartered Accountants of Scotland.

'The work of our panel becomes increasingly important as investors come more and more from those who do not have professional and commercial backgrounds. I am sure that Lord Shawcross must be well aware of this as he is Chairman of the Wider Share Ownership Council. Communicating accurate information to shareholders must, therefore, be regarded as a matter of first importance to directors and senior executives of companies, large and small, even if the shareholder himself may regard the receipt of his dividend as the most important matter of all.

'To Mr William Fraser and Mr P. Edge-Partington, the respective chairmen of Transport Development Group Ltd and Crown House Ltd, I would express my congratulations on their success and as I always do, I remind you that there is in fact no distinction between the two Awards, which are of equal merit.'

PRESENTATION OF THE AWARDS

The Rt Hon. Lord Shawcross, P.C., Q.C., presenting the Awards, said:

'It is, indeed, a great pleasure and privilege to have been invited to come here and to present these important Awards, although I confess I have been extremely puzzled as to why the invitation was sent to me. You see, I committed myself a few years ago to the statement that a balance sheet to me was very like some example of modern art – it looked exactly the same way when you hung it on the wall upside down or the right way up. (*Laughter.*) Since then partly, I think, owing to the marked improvement in the standard of public accounts that there has been in recent years, and partly to a fairly diligent reading of this great periodical *The Accountant*, I do know a little more about accounts, but still very little.

'But I do know enough about them to understand their great importance. I suppose to all of us today – whether we are business people in the City of London, whether we are shareholders in quoted companies, or whether we are just ordinary employees of companies realizing (as all employees ought to do but I am afraid that a great many don't) that our own welfare is bound up with the welfare of the companies which employ us, or whether we are City analysts

or City editors, or members of the public at large interested in the general health of British industry and commerce – the accuracy of accountancy is a matter of the utmost importance. And that, I suppose, is the first thing that one says about any accounts – that they must be true and they must be full and accurate giving a complete picture of the affairs of the company to which they relate.

Integrity and independence

'Nobody would doubt in this country – not always can the same be said of some of the other countries of the world – nobody would doubt for a moment the general and complete integrity of the great profession of accountancy. But I think it is worth while emphasizing, so that ordinary members of the public should realize it, that although accountants are employed and paid by the companies for which either generally, as members of the staff, as outside accountants, or as auditors, they act, their duty is very much to the general body of shareholders and to the public at large. Integrity and complete independence on their part is a matter of the first importance.

'It is essential – and I am sure that this is in fact what happens but the public do not realize that it always does happen – it is essential that they should never yield to the persuasions of company directors who may sometimes be tempted to put a favourable gloss on questionable figures or to do anything which may conceal the true state of affairs of the company with which they are dealing.

'It is, unfortunately, notorious that perfectly honest, perfectly reputable accountants can sometimes reach widely differing conclusions on the same facts with the result that you may sometimes get large and lamentable differences in the final figures which are drawn up in respect of the same company by different firms. The recent case of Pergamon was a very startling example of that, but there have been other more recent cases which would be invidious to mention here but which have caused a good deal of anxiety. In that situation everybody, I think – the shareholders, the investing public, the City, and the employees not the least – must welcome the urgency with which the profession has been attempting to lay down a number of common standards of practice on matters which in the past have been susceptible to different methods of treatment.

'This is not the occasion to express any views on how you should deal with work in progress, how you should treat valuations of stocks, what methods of depreciation should be used and all the rest, but what is essential, I think, in all accounts is that those who read them should be able to understand from reading them what methods are, in fact, being followed, and I hope the growing body of standard practices will ensure that the same methods are used in all accounts.

'Now, Mr Chairman, in this process both of promoting and protecting the highest standards of integrity and independence in the profession and of encouraging the fullest and the clearest and most informative presentation of accounts, *The Accountant* has for long past played a very notable and, I venture to think, a very valuable part, and this not the least in the presentation of these Annual Awards to joint-stock companies whose particular accounts measure up most closely to the ideals that are set.

'This is the 18th occasion on which these Awards have been presented, and I know from my own experience – indeed I came away from the middle of a board meeting this morning with a request from the chairman to see if I could not do anything to ensure that our company, this particular company, got the Award next year. (*Laughter.*) I regret to say that the Panel of Judges is not susceptible to influences of that kind. But I do know from my own experience in that and other companies how very much coveted and valued these Awards are, not only by the accountants of the firm and the finance director but by the boards and, I am sure, the shareholders as a whole.

'Mr Chairman, I very warmly congratulate these two companies, their boards and, in particular, their finance directors and their accountants on the very well deserved success which their accounts have achieved in earning these two Awards.

Mr J. B. Duncan, C.A., F.C.I.T., managing director of the Transport Development Group, *second from left*, and Mr R. D. Garwood, F.C.I.S., M.C.I.T., secretary of the company, holding their Award, with Mr M. A. Hodge, C.A., group accountant, *left*, and Mr W. R. Middleton, M.B.E., B.A., F.C.A., a partner in Farrow, Middleton & Co, the company's auditors.

Mr R. H. Gaskin, A.C.I.S., secretary of Crown House, holding his company's Award, with, *left to right*, Mr Patrick Edge-Partington, F.C.A., chairman; Mr G. H. Hovey, M.A., F.C.A., a partner in Harmood Banner & Co, the company's auditors; Mr R. S. Uffindell, director and chief executive, Glass Division, Crown House, and Mr A. J. K. Parker, C.Eng., F.I.Prod.E., director and chief executive, Electrical and Mechanical Services Division, Crown House.

ACKNOWLEDGEMENTS OF THE PRESENTATIONS

Acknowledging the presentation made to his company, Mr William Fraser, O.B.E., M.A., M.INST.T., chairman of the Transport Development Group, said:

'On behalf of Transport Development Group Ltd, it gives me very great pleasure indeed to receive this splendid Award. We regard it as an accolade of high distinction. The list of our predecessors is notable and it is an honour to be chosen by the Panel of Judges to join their company.

'It is a particular pleasure to receive the Award at the hands of Lord Shawcross, in his capacity as chairman of the Panel on Take-overs and Mergers. We have long been active in this field and one of the problems in the presentation of our accounts has been the fact that we have, over the years, acquired a very large number of trading companies. Some of these undertakings may perhaps be more familiar to the public at large than Transport Development Group itself, for in all trading matters the parent company likes to hide its light under a bushel, and this for sound commercial reasons. Only at the half year and again at the year end do we emerge from relative obscurity to give account of ourselves. This makes the annual report a document of more than usual consequence to us and to our shareholders.

'We have well over 100 active trading subsidiaries, each given almost total autonomy in commercial matters, though subject to firm financial disciplines. In presenting the parent company accounts, our objective has been to emphasize the range and extent of these companies, to show the contribution which the different elements make to the whole and to distinguish between the profit which comes from new acquisitions and that arising from the growth generated by existing undertakings.

'That we have succeeded to the extent of receiving this Award is a matter of considerable satisfaction to us. I may say that it came as a most agreeable surprise. Such hopes as we had entertained in years past had perhaps expired, but we continued to concentrate on the business of informing our shareholders to the best of our ability, without more than a passing glance over our shoulders at this exceptional and rewarding recognition.

'When I say 'we' in this connection, I refer to the team at headquarters which has produced these accounts, for in this, as in other matters, it is company policy, so far as possible, to give those responsible their head. I may say that on occasions some of the directors had slight qualms, not so much over content as over design. Hence, as a board, we were consoled some years ago to see our staffs put firmly in their place by, I think, *The Accountant* itself, Mr Hughes, which described the cover of one of our reports as "resembling a view through a barred window at a room full of chopped up words". That put the designers in their place and they have never quite recovered! (*Laughter.*)

Tribute to the profession

'It is customary these days to denigrate institutions and establishments, sometimes on the sole ground of their long existence. As one of the minority on our board who is not a chartered accountant and as one who travels widely and comes into contact with business and professional men in many parts of the world, I would like to endorse what Lord Shawcross said and to acknowledge before this distinguished gathering the very great debt that the business community owes in the United Kingdom to the high standards of competence and integrity of the accounting profession. We

are inclined to take our auditors for granted and we can so easily overlook the influence which they exert.

'The exposure drafts which are now flowing from the Institute are not going to make life easier for those responsible for presenting company accounts or for those producing annual reports; but I am sure that informed discussion on these issues and the establishment of clear standards will be wholly beneficial.

'Mr Hughes and Mr Webb keep us informed from week to week of these developments. They advise and inform us, and their "Industrious Accountant" entertains us. They, too, are providing a service, which I think is of great value in upholding and raising standards. The institution of *The Accountant* Awards and their expression in the tangible form of these magnificent sconces is one of their most inspired innovations.

'My company is about to move into new offices. We received the announcement of the Award just as the designers were setting to work in the boardroom. I can assure you that the sconces will be set in a place of honour and will be cherished in the years to come. I thank you most sincerely.'

Pleasurable surprise

On behalf of Crown House, Mr Patrick Edge-Partington, F.C.A., chairman of the company, said:

'It is just a month since I received this marvellous news and I am still suffering from a sense of shock. Since I have been chairman of my company for eight years, a variety of things have been said about me in the press and, frankly, I am not used to praise (*laughter*) not without heavy qualification. (*Laughter.*)

'I see from the prospectus published to encourage entrants to this competition that symbols of Venus, the protector of commerce, are included in these beautiful sconces. She certainly must have smiled on Crown House for us to win in this Olympic marathon with its 1,200 competitors.

'On behalf of my company may I express my deep gratitude to *The Accountant* for this beautiful gift, to the Panel of Judges for coping with such a difficult task of selection, and to Messrs Asprey's who have maintained their incomparable standard of craftsmanship.

'Lord Shawcross, as Chairman of the Wider Share Ownership Council, I am sure you will be interested to know that Crown House has nearly 7,500 ordinary shareholders, which is a large number for a relatively small company in public company terms. We also have 7,500 employees. In management we are constantly being exhorted to make use of business ratios but I have never yet seen it suggested that the shareholder to employee ratio is something a zealous manager should keep his eye on, but I would not be surprised if it does not happen soon. In our case it is 1 : 1. (*Laughter.*)

'We have a large number of what are commonly called, rather unkindly, small shareholders. Over half have holdings worth £300 or less. On the other hand, of the remaining shareholders we have many of the leading institutions in the City of London. So we have a wide variety to satisfy in designing one report and we have appraised it in this way.

'Mr Chairman, as you know, the accountancy profession has been passing through an interesting period of development. We have been receiving unsolicited advice from many quarters as to exactly what is wrong with us, I understand that a recent suggestion is that our troubles stem from our preoccupation with double entry book-keeping: if we were to revert to single entry all our problems would be solved.

'Our report, Mr Chairman, still reflects the use of double entry principles. I am afraid that we still depreciate assets with reference to historic costs and make no revaluations of assets by reference to Government price indices. I am greatly encouraged that we have won this Award by such old-fashioned methods. Clearly the Panel of Judges is not to be stamped on. (*Laughter.*)

'May I now thank all those who have assisted in getting us to this place today and bearing in mind that group accounts are no better than the sum of their constituent parts, my thanks also go to the many accountants in our group who each year prepare the accounts for their individual trading units. Tomorrow we have a luncheon party for them all so they can view the prize they have all won.

'Finally, Lord Shawcross, my thanks are due to you for your graceful presentation of this Award.'

Mr C. A. Evan-Jones, M.B.E., Secretary of The Institute of Chartered Accountants in England and Wales, *far left*, with Mr Richard Wainwright, M.A., M.P., F.C.A., Chairman of the Liberal Party; Mr W. Shuttleworth, F.C.A., President of the Liverpool Society of Chartered Accountants; Mrs Shuttleworth; Mr Geoffrey Place, F.C.A., President of the South Eastern Society of Chartered Accountants, and Mrs Place.

PANEL CHAIRMAN'S REMARKS

Mr Roy Borneman, Q.C., Chairman of the Panel of Judges, said:

'The captains and the kings having departed with their trophies, it is now for me to make short comments, as I usually like to do, not only on the Awards generally but on the two sets of accounts which to our mind outshone the other entries. You will appreciate, I think, that in the last resort the last five or six sets of accounts which we consider are very difficult to separate. When you have so many so close it is a question of very little margin between success and near-success; and for many companies it is a question really of "a little more, how much it is" and "a little less, how far away".

'I make no secret of the fact that the panel as a whole was delighted that Transport Development Group won the Award for the larger company. That, Mr Chairman, is because – and there is no secret about it – this company has come near to winning an Award for many years. I make no secret that that did not weigh with us at all – they won on merit for this year.

'The main things we look for are, of course, set out as a minimum in most sets of accounts. In addition to what we required ten or twelve years ago, we do look for clear presentation of the percentage return on capital employed and the earnings per ordinary share. We also like to see the cover for the ordinary dividend.

Clear guide

'Now these are matters which are not only interesting to the shareholders to see how their investment has progressed or regressed, but are of importance, of course, to other persons who are advising on the accounts in general. Such a summary not only gives a clear picture of what the company has been doing over the past few years, but is the clearest guide to how the board and the company as a whole have directed their attention towards profitability and not merely productivity.

'Taking the Transport Development Group Ltd accounts, what particularly impressed us this year was the summary of the past ten years' activities. The comparative figures in the directors' report give everybody a picture of what has happened as compared with what happened the previous year, and the statement of the fixed assets position is, I think, as good a presentation as the panel has seen for many years.

'So far as Crown House is concerned, again they have scored very heavily for presentation; indeed it was the presentation which won it its place over the last few. It is so straightforward, so graphic, measuring up to all the tests you would expect of a company of its size and, above all, it is a set of accounts which recognizes that many shareholders, particularly in the case of a company which has taken over another or acquired other activities, like to know how the new acquisition has been going during the year.

'One point of which we did take particular note, on the consolidated profit and loss account, was the very clear distinction between the profits of companies constituting the group on April 1st, 1969, and the companies acquired since. Apart from that, the clarity of the ten-year financial report really does not call for any effort to read it. It gives the earnings per ordinary share, the gross dividend per share and the cover; possibly what stands out above everything else is the statement of sources and application of funds.

'In conclusion may I thank all the members of the panel for their enthusiasm and unrelenting attention to detail in assessing the entries this year.'

Mr A. H. Walton, F.C.A., Deputy President of The Institute of Chartered Accountants in England and Wales, *right*, is greeted by Mr Percy F. Hughes and Mr Arthur E. Webb.

EDITOR'S WELCOME TO GUESTS

Welcoming the guests, Mr A. E. Webb, Editor of *The Accountant*, commented on the presence of so many eminent representatives of the accountancy and other professions. 'Even though the Treasury scale – thanks to the Monopolies Commission – is no longer with us', he said, 'I could not begin to evaluate the present gathering at normal professional rates!'

The event, he concluded, was a practical 'outward and visible sign' of the continuing concern of *The Accountant* for the standards of the accountancy profession, and he and his colleagues were greatly encouraged in their task by the supporting presence of so many friends on this occasion.

Mr S. E. Woods, F.C.W.A., F.A.C.C.A., President of The Institute of Cost and Works Accountants, *left*, and Mrs Woods, in conversation with Mr Francis Stephenson, F.I.M.T.A., President of The Institute of Municipal Treasurers and Accountants.

The Case for Shareholders' Committees

by M. G. WRIGHT, B.Com., A.A.C.C.A., F.C.I.S.

The role of the shareholder in relation to his company is at the present time a very tenuous one. Historically little effect has been given to his views; nor has he tried to exert the few powers that remain with him.
Indeed, the shareholder is, by and large, a very apathetic animal, and the climate today is more likely to exacerbate this situation than to improve it.

THE spate of mergers in the last two decades has tended to promote boards of directors who are professional managers rather than representatives of the shareholder, and who frequently have little or no direct investment in the company that they manage.

The political climate, particularly during the sixties, has focused directors' minds on governmental views rather than those of the owners of the business. Public recognition of the director through participation in many quasi-governmental bodies, through honours, and through governmental handouts to those who 'collaborate' has made boards of directors very susceptible to the whims of politicians.

Within their own domain, directors are tempted to be more concerned with the effect of major changes on their own status than with the implications for the shareholders. Anyone reading Graham Turner's story of the Leyland – British Motor Holdings merger cannot but be struck by the relative importance placed by the directors on the role that each would play in the merged company, and the interests of the shareholders in the two companies.

Directors' duties

Even auditors have not been unaffected by the downgrading of the shareholder. Directors tend to forget that the auditors are appointed by the shareholders, and in recent years there have been cases of directors trying to dismiss auditors who have 'lost their confidence', or from motives of convenience.[1]

This is not an attack upon the integrity of directors as a whole. The attitudes that they display are human ones arising out of the situation in which they find themselves. But it is time that the role of the shareholder received more emphasis, and that in some of the major decision areas the shareholder should have a direct voice in the making of those decisions.

The first point that all directors should appreciate is that the shareholders are the owners of the company, and that they, the directors, are entrusted with the running of that company on behalf of the shareholders. One of the major long-term objectives (if not the only one) should be to maximize in some way the values that accrue to the shareholder, and decisions made within the company should have that objective clearly in the forefront.

Role of the institutions

Decision areas where the interests of the shareholders should receive primary consideration will be dealt with later, but at this stage it can be said that decisions on whether new funds should be raised and if so from what sources and on what terms; merger and takeover decisions; and setting long-term strategies, are essentially concerned with shareholders' interests. When proposing a rights issue, for example, do directors clearly recognize and evaluate the amount by which earnings must increase if the share values of the owners are not to be positively damaged?

The problem of shareholder apathy should also be tackled. This arises from a number of root causes, among which are the lack of communication between individual shareholders and therefore the difficulty in forming pressure groups, and the traditional lack of participation by the institutions. There are indications that the aloof attitude of the latter is beginning to change. Pressures have been brought to bear, for example on Vickers, for a change of management. But these are all behind-the-scenes pressures made by small groups of institutions in which the private shareholder has no chance of participating. The expansion of such informal committees to include all shareholders, backed by statutory authority, is the basis of this paper.

The shareholders' committee

When legislation is considered for the next Companies Act, consideration should be given to making it compulsory, for all quoted companies at least, to establish an independent shareholders' committee.

The author is senior lecturer in the School of Management at the Polytechnic of Central London.

[1] See, for instance, 'Fair Play for Auditors', *The Accountant*, April 22nd.

If you want a second opinion...

Those who are involved professionally in advising other people on money matters may sometimes wish to take a second opinion. Usually this happens when questions arise which are outside their own professional sphere of expertise, or when the advisor seeks to reinforce advice of a long-term nature to a client's satisfaction.

In these cases, a second opinion approaching the problem perhaps from a slightly different angle and with a differing range of professional monetary disciplines, may be of great help to all concerned.

The difficulty may be that one is not certain precisely which skills are the appropriate ones in a given case. Where is one to find this? The answer is generally – in a merchant bank, which provides the widest variety of financial skills under one roof.

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Independent is the key word here. For it to be really effective, it must not be a mere shadow of the board of directors. Its function should be, in specified situations, to meet jointly with the board of directors and for decisions to be taken jointly by both bodies. If there is failure to agree the board decision prevails, but the shareholders' committee will report its disagreement with the board to the general body of shareholders, either at the next annual general meeting or at a specially convened meeting.

The joint meeting is designed to provide a forum at which the shareholders' interests can receive a fair hearing and the special interests of the directors assessed from that point of view. Moreover, it will enable those views to be expressed before the event becomes a *fait accompli*. The directors' views can still prevail but in the event of disagreement they must be prepared to justify their decision at the next general meeting, bearing in mind that with an organized body of shareholders in existence there may be resolutions to remove them from office.

The auditors are the representatives of the shareholders and report to them. It is suggested that a further function of the shareholders' committee should be to meet with the auditors at the end of the audit and before the accounts are signed. The purpose of this meeting will be to enable the members of the committee to question the auditors about any facet of the accounts which they think should be probed, and any difficulties that they may have had in their audit programme. Further, any recommendations for the appointment of auditors should come from the shareholders' committee and not from the board.

A further area that should be controlled is the question of directors' contracts with the company. Many shareholders, and no doubt some directors, are concerned that as a body they write their own contracts of employment with the company. At present there is no effective review body to which they can refer, since their relationships with shareholders are so tenuous.

Most boards of directors present pictures of self-perpetuating oligarchies which shareholders are forced to rubber stamp. This picture could also be changed under the shareholders' committee system, if that committee as well as the board is given the power to make nominations for new appointments.

Decision areas

Until there is an established basis of participation by the shareholders' committee, its functions will have to be carefully circumscribed, although as experience builds up it may be possible to enlarge the scope. As an initial starting point the decisions to which share values are most sensitive, or where there are major conflicts between shareholders' interests and those of the directors, should be included. Those proposed are:

(*a*) *Making a take-over bid.* – There might be an escape clause here for bids which represent only a small fraction of the bidding company's value, e.g., less than 10 per cent of the market value.

(*b*) *Where the company is the object of a take-over bid.* – This will be to formulate acceptance terms or defensive strategy that is in the best interest of the shareholders.

(*c*) *New fund raising.* – Where new issues of equity or loans are contemplated, the committee should be able to express a view as to whether the issue is desirable given the profit projections of the board, and whether the proposed source of funds is the right one.

(*d*) *Objectives.* – Here one is dealing with a more difficult area but one which is of crucial importance for the shareholder. Participation may take longer in this area but even initially where it is proposed to make major changes in the company in the long term this should be a proper field for discussion.

Composition of the committee

The achievement of any of the proposals outlined is, in the last resort, dependent upon being able to recruit really independent shareholders to the committee, who have the necessary expertise to contribute to its proceedings, and, most importantly, to speak to the directors at their own level. This is the most difficult part of the process, but there should be enough talent in the country to enable this to be done.

Let us first establish who should *not* be a member. If it is to be independent then the following people should be excluded:

(*a*) Employees, either of the company or of individual directors.

(*b*) Partners of directors, or their employees.

(*c*) Any shareholder who is director of a company whose shareholders' committee includes a director of the company.

The first line of recruitment should be the institutions. They can contribute immensely to a revival of shareholder participation in companies and help lay the bogy of apathy. They invest widely in quoted companies and already collaborate in a number of ways.

Though they may be the pathfinders, one must not rely on them entirely. The private shareholder must play his part, both in expressing increased interest in his company and by serving on shareholders' committees.

It will be difficult initially to persuade such people to participate, since shareholders are virtually unknown to each other. Perhaps initially they should be asked to volunteer for the job and submit an 'election address' at the annual general meeting where the committee is selected. Later, when contact has been made with a wider range of shareholders, it might be possible to vet persons proposed for election to the committee more formally.

Since they will have access to inside information, members of the shareholders' committee must be

subject to some of the same constraints as directors, and their shareholdings must be open for inspection.

Conclusions

The 'shareholders' democracy' is in a shaky state, and there are many people working for its abolition. If it is to function effectively in practice, then there must be more participation by shareholders and some limitation to the private fief of the directors. The shareholders' committee offers one approach to cure the present *malaise*.

The problem is urgent and, given the length of time necessary to amend the Companies Acts, it would be useful for those companies who have always recognized the prime interests of their shareholders to show that shareholder participation can be made to work.

Sources of Finance for Clients

by PETER D. SMITH, F.C.A., F.I.C.M.

FINANCE is offered by the national finance companies for all ranges of expenditure from a few hundred pounds to figures in excess of £1 million. Finance companies normally provide credit for the acquisition of all types of fixed assets, but not for working capital. The type of finance normally falls into the following broad categories:

Hire-purchase

Credit is provided under this heading for the acquisition of private motor-cars, commercial vehicles and plant and machinery.

Loans secured and unsecured for the consumer market

There has been a tendency in recent times for finance companies to grant personal loans in place of hire-purchase for certain categories of business. Loans are now provided for the following categories of business: motor-cars, caravans and marine craft and home expenditure such as central heating, extensions or double glazing. These loans are normally unsecured except when a mortgage is taken on a marine craft.

Loans secured and unsecured for commercial enterprises

Very little unsecured lending is granted for commercial companies, as most of this finance comes from the joint stock banks and merchant banks. Finance companies, however, provide loans secured by floating charges, fixed charges and chattel mortgages on plant and equipment. The amount of these loans can be as small as a few hundred pounds up to very large figures in excess of £1 million. The loans are normally granted for the acquisition of fixed assets, and only in very isolated circumstances for working capital.

Leasing

The provision of leasing facilities has grown at a very quick pace over the last 12 years since leasing was first introduced by the finance companies.

To understand the difference between hire-purchase and leasing, it is important to remember the definition of the two agreements. A hire-purchase agreement is a rental agreement with an option to purchase, whereas a leasing agreement is a rental agreement with no option to purchase; thus in hire-purchase the hirer can exercise his option, normally by the payment of a nominal sum after he has paid off his debt and obtain title to the merchandise. In leasing, the leasing company cannot pass title to the lessee, otherwise the Inland Revenue interpret the agreement as hire-purchase and the taxation benefits of leasing are lost both to the lessor and the lessee.

Block discounting

Block discounting is a method of financing retailers and other traders who grant credit to their customers direct under hire-purchase or rental, and the finance company buy a batch of agreements at an agreed value, normally 75 per cent of the outstanding balances or rentals and the trader pays the finance company the discounted amount over an agreed period at an agreed rate of discount. Block discounting is not a charge on book debts and therefore does not need to be registered under the Companies Act; it is an outright purchase of book debts at an agreed price with a full assignment of the debts to the discounter.

Block discounting services are only appropriate for those traders who deal in consumer goods such as television, radios, bicycles and furniture, and are therefore mainly limited to retailers.

Factoring

One could describe this system as one akin to block discounting but primarily suitable for industrial and commercial companies. Perhaps it could be said that the prime service that a factoring company offers is that of a computer or accounting service.

A factoring company will take over the collection of all receivables by rendering monthly statements to its client's customers. It is found that factoring companies are often more successful in reducing the period of credit given to debtors because they are more experienced in the collection of accounts than their client, who is too conscious of the goodwill existing between it and the customer. Furthermore, the factoring companies normally operate a first-class credit vetting service and can supply financial information on any company its clients contemplate doing business with.

The charge which the factoring companies usually levy is based upon turnover, dependent upon size and pattern of business, but normally in the range of 1–2½ per cent of turnover. In addition to the collection service described they are also prepared to purchase book debts at an agreed discount, collect these book debts, remit any balance over and above the amount discounted to the client and charge

The substance of a paper presented to the London and District Society of Chartered Accountants' course on 'The Sole Practitioner and the Smaller Firm'.

the client a discount charge of anything between 1½–3 per cent over Bank rate on a day-to-day balance basis. This factoring service is also offered by specialist factoring companies not connected with finance companies.

Joint stock banks

It must be remembered that, by strict definition, all overdraft facilities offered by joint stock banks are repayable on demand. If one remembers this condition, the implication is that joint stock bank facilities are unsuitable for the purchase of capital equipment and should ideally only be used for the purpose of financing self-liquidating assets or easily realizable assets.

One of the problems that modern business is presently encountering is the past generosity of bankers to grant overdraft facilities for the acquisition of capital goods and the provision of medium-term working capital. This generosity has resulted in embarrassment to many concerns when the banks have been subjected to arbitrary directions from the Bank of England on their lending limits, thus requiring them to reduce their overdraft facilities selectively.

It has, in my view, been the inclination of professional advisers to firstly seek the help of the bank manager to solve the financing problems of the business. I think this is a very right and proper approach, but the banks today are faced with continually stringent ceiling directives and increasing overhead costs. These two factors result in the banks being more selective than previously on the purposes for which their facilities are granted, and the second factor is resulting in higher interest charges being levied with increased commission. I cannot foresee a return to a situation whereby the difference between the cost of overdrafts and other forms of finance shows a wide disparity.

Merchant bankers

Most of the larger City merchant bankers do not normally provide finance in certain areas under a minimum figure, but the following sources of finance are available for the small but established business:

Discounting of trade bills

Most merchant bankers are prepared to discount bills receivable for reputable companies and will, in certain circumstances, provide the funds to meet bills payable on maturity. The merchant bank normally requires evidence of invoices or the security of bills of lading for imported goods. The cost of bill discounting depends on the tenure of the bill and the rates are published daily in the financial press.

Acceptance credits

Normally for public companies, a merchant banker is prepared to provide finance under acceptance credits. This operates by the customer drawing a bill of exchange on the banker who 'accepts' the bill, thus converting it into an acceptance credit or bank bill. The banker normally discounts the bill on the market, putting himself in funds at the same time as he puts his customer in funds to the amount of the bill. Interest on the bill is charged at bank bill rate which is published daily in the financial press, but the merchant banker charges an acceptance commission for endorsing the bill and obtaining the funds for the customer. Acceptance credits are often granted against stock held or purchases to be made and supported by documentary evidence in most cases.

Commercial loans

Many of the merchant banks have associated companies or departments who offer medium-term loans with or without a participation in the equity; sometimes with only an option to purchase part of the equity. In normal circumstances, the loans are secured and are granted in the expectation of terminal finance being available, normally by the issue of loan stock on the market should the company be public or (in the case of a private company) a floatation within five years.

A merchant banker normally charges a rate tied to bank rate and often equivalent to that charged by joint stock bankers but expects to make a profit on equity participation should floatation take place; and also expects to be the issuing house at the date of floatation, thus earning additional fees. These types of loans are difficult to obtain for businesses earning less than £25,000–£30,000 net before tax, with good management and good prospects of floatation.

Building finance

Various facilities are available under this heading from the merchant banks and other financial institutions in the City, but such facilities are for a specific project and are normally provided for private builders erecting an estate where the financier will provide a proportion of the cost or valuation of the land and a proportion of the building costs secured by a first mortgage on the land. Repayments are effected on the sale of the houses. For property and industrial companies erecting blocks of offices or factories, bridging finance can be made available during the erection of the building, but terminal finance is normally required to be guaranteed by an institution so that the banker can be paid out when the development is completed.

Other sources

There are many money brokers who can provide a valuable service and act as 'runners' between the financial institutions and the borrower. These brokers do not normally provide any capital, and work on a commission payable by the borrower.

If dealing with such brokers it is important not to pay any commission until they have arranged the funds. Many try and obtain a commission purely on the introduction, but this practice can be expensive and can result in no finance being obtained. Before you approach any such brokers you must ensure the basis upon which they charge their commission.

These brokers find finance for second mortgages but if your client should require such finance I would advise that you approach one of the institutions who provide the finance themselves, as you will normally find the cost to be so much cheaper.

Sale and lease-back

This is becoming an increasingly important method of financing property. Many of the institutions such as insurance companies or large property companies are prepared to buy new buildings such as factories and office blocks at an agreed valuation and lease-back to the occupant on 21-year leases with seven-year break clauses. The rental required is largely dependent upon the status of the company requiring the sale and lease-back arrangement and is naturally higher for a private company, who may have to pay a rent equivalent to 12 per cent on the purchase price of the property.

Classical Answers for a Classical Crisis?

by RALPH HORWITZ, M.A., B.Com.

As Sir Frederick Catherwood said in his address to the 1971 BIM national conference on 'Competitive Britain', we face something of a crisis of confidence in our ability to succeed. A crisis of confidence is indeed just what it is, distinguished above all by a very worrying and near-alarming decline in investment. The extent to which the militant trade unions are responsible must be a matter of opinion rather than proof. Undoubtedly there is empirical evidence of wage-costs so far exceeding productivity contributions that the disappearance of profits both deprives many British firms of a source of funds and makes them, and others, increasingly disenchanted with the prospect of committing available funds to disappearing profits.

IF it is acknowledged that wage-push inflation has taken over from demand-pull monetary expansionism as the cause of our immediate ills (though the proof is not absolute), it is still a question whether the British economy is not in greater danger from its intellectual Left than from its militant Left.

For a quarter-century at least, members of the intellectual Left have dominated economic analysis and prescription, deploying their neo-Keynesian magnitudes and manipulations with all the mystique of their mathematics. To protest that there are limitations to numeracy is to be rejected with scorn; to deny the wisdom of econometric calculation is to be condemned with contempt. Yet two questions are surely reasonable. Firstly, have the neo-Keynesians proved their pudding is or has been worth the eating? Secondly, are they insisting that we fight the crisis of the 1970s with the answers of the 1930s?

Cheap money policy

The genius of John Maynard Keynes did identify the 1930s as a collapse of capitalistic confidence of such unique severity that it could not recover without state aid. It had not only lost its *élan*, but its urge to live was being drained by the interaction of limitless unemployment, falling prices and disintegrating demand. Such a blood-letting was more than debilitating; it portended a final collapse.

Keynes, in that combination of grand theory and pragmatic persuasiveness that is the *General Theory of Employment, Money and Interest*, made evident the inter-relationships of the economic system. He related propensity to spend to propensity to save, idle men to idle machines, declining demand to declining investment, multiplier to accelerator. He found most of the answers in more money and, especially, more cheap money. He did not think it strategically important who spent the money but he said that only Governments could make more, cheap money. He knew, of course, that inflation might emerge from the uncorked bottle but, in the 1930s, millions of unemployed workers and thousands of mothballed plants could surely absorb the deliberate stimulation of 'total demand'.

The neo-Keynesians, bedazzled if not bemused by their computers, elaborated their equations until they claimed to be able to 'fine tune' the performance of the economy. The writer, when first he came to Britain, spent hours watching television and soon realized that the moment some busybody started to 'fine tune' the set for a clearer picture, the programme disappeared entirely. He has the same feeling about all the 'fine tuning' of the British economy over the past five years.

But perhaps never more than now. All this argument about how much and when to 'reflate' – exactly when to 'intervene' and how many millions to add to 'total demand' have all the tired theatricality of myopic playwrights interfering with producers, who recognize the necessity for a complete change of scene if not of the drama itself.

Changes needed

The new Conservative Government, in insisting on changes in British attitudes and institutions rather than in mathematical sophistication and analytical sophistry, shows much keener insights into the realities of the 1970s.

Yet there still seems a danger that we may fight this incipient depression with the weapons of the last great depression. The critical issue is whether Keynesian theory was in truth a general theory. Was it the ultimate analysis, if not the final synthesis? Did it establish how the capitalistic, market-economy in all circum-

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stances moves between equilibrium and non-equilibrium? How it becomes non self-correcting as a general operation at any time? Or did the great economist write a special theory to explain the special era of the Great Depression?

There were other theories of the 'trade cycle', among them the Hayek-Wicksell formulations that were built on more classical models. Over-simplifying, these theories distinguished between the 'natural rate' of interest and the 'money rate' or 'market rate of interest'. The former or 'natural rate' was defined as 'that rate at which the demand for loan capital just equals the supply of savings'. The money rate or actual rate of interest is that influenced by the monetary credit policy of the banking system and, in recent years, the Treasury interpreting government policy.

If the market rate is set below the natural, or perhaps more precisely the equilibrium, rate of interest by banking and/or Treasury policy, industry is encouraged to 'expand'. The nature of this expansion is the adoption of more capital-intensive or more 'roundabout' methods of production. The argument is that the vertical structure of production – from consumers' or final goods production through all the earlier productive processes to capital goods production – is a function of the rate of interest. The lengthening of the process of production – using more of the available productive resources for the capital goods and intermediate or semi-finished goods instead of consumer goods, with the ultimate objective of thereby increasing the flow of consumer or final goods – depends on the availability of saving.

With a relatively low market rate of interest and 'generous' credit policy, industry is encouraged to use more capital and expand or elongate the vertical structure of production. The demand for, and supply of, credit exceeds the supply of savings. The inflationary up-swing of prices gets under way, encouraged by the increase of money-wage incomes. In turn, horizontal expansion of consumer goods industries is stimulated and the boom is really launched.

Artificial conditions

This boom has been initiated by credit creation through the artificial lowering of the money rate of interest below the 'real' rate of interest – that is, beyond the availability of the actual supply of savings. But at some point of time, either Treasury policy or the banking system becomes unwilling or unable to continue the expansion through more and more credit creation. The 'market' rate of interest is allowed to rise and credit is contracted so that the structure of production, or use of capital in industry, is more realistically related to the actual volume of real savings available. The end of the boom is signalled by a sharp rise in market rates of interest, tight money and a fall in equity prices on the stock-market.

The over-investment theory of the trade cycle was formulated in the thirties, and almost certainly gave too little weight to the special circumstances of that unique collapse of confidence. Its answers which implied a sharp, if short, dose of disinflationary policies were ineffective and perhaps disastrous.

In the 1970s, however, the events of the preceding boom years do seem to parallel its analysis. Credit expansion and encouragement of more capital-intensive productive processes were given enormous impetus by governmental supplies of developmental funds for advanced technology. Advanced technology absorbs a formidable proportion of available investment funds – investment funds that are more the creation of money than the reality of actual savings.

With the inevitable credit contraction and rise in money rates of interest, it is these areas of advanced technology and capital goods production that are being suspended or cut back. Above all, their problems are distinguished by the unsustainable rise in costs. Profits, the real source of actual savings, are diminishing and drying up.

This is much more than 'containment' of costs, including wage costs. It is not sufficient to slow down wage-demands and price-rises to some arithmetically-arbitrary figure and then delicately time a 'reflation' in yet another exercise of fine-tuning. It is also much more than implementation of incomes-policies, whose parameters and variables are related to some past basis of alleged 'equity' or 'fair distribution'.

What flexibility means

Price flexibility means flexibility. It means wages and prices going down and up in response to market forces. It means that these real market forces are allowed to operate not only on the rate of interest (and from about 1967 onwards the money-market has become very real indeed) but on every kind of price, including the price of labour. This is not a proposal for a general lowering of wages. On the contrary there are many areas in which the strong demand for labour should be met by a rise in wages.

One of the objections to the present government policy towards contemporary wage-demands is that the guide-lines of 8 or 9 per cent, however psychologically motivated, are quite arbitrarily chosen. There is no evidence whatsoever that either trade union militancy or governmental obduracy is diminishing the rigidities of Britain's labour market. Perhaps the crucial lesson which Britain has to learn is how to put flexibility back into wage rates. And, before either the militant or the intellectual Left cry that a competitive labour market is unendurable exploitation of the weakest section of the community, a competitive labour market does at least as much to increase some money wages as it does to decrease others.

Its greatest commendation, however, is that it alone – rather than more mechanistic, mathematical macro-economics – seems likely to increase the real wages of all of us. Which is, presumably, what economic growth is all about.

LETTER FROM AMERICA

Power to Destroy

From Our New York Correspondent

WALKING down Fifth Avenue the other evening, a mailman with his usual bags and trolleys was busily emptying one of the squat, American versions of the pillar box, when a breathless but prosperous looking man hurried up to him and handed him a letter, urging him to make quite certain that it got into that day's mail.

The mailman, who might have been one of the 4½ million taxpayers removed from the rolls by the Reform Act of 1969, paid little attention to a seemingly unnecessary request. The man with the letter, on the other hand, was doubtless one of the 72 million Americans who still have to submit income tax returns; and he had evidently recalled that midnight on April 15th, was the last possible moment – if he was to avoid the threat of a penalty – for having his declaration to the Internal Revenue Service postmarked.

From personal observation, it seems that neither accountants nor their clients normally set much stock by the Revenue's exhortation to file returns 'as soon as possible after January 1st'. This year, however, the slowdown in the economy has meant that many taxpayers are living on lower incomes than they expected, and are more eager than usual to recover overpayments that built up last year. The Revenue announced recently that returns had been coming in a little more quickly than usual, and that refunds – at the enormous figure of the equivalent of more than £3,000 million – were running 11 per cent ahead of last year.

Build-up of overpayments

In relation to the gross national product, income tax refunds on this scale represent less than 1 per cent. Yet they represent nearly 5 per cent of total tax revenues; and they suggest a high degree of efficiency on the part of the American tax collector. The overpayments result from the adoption of pay as you earn by all businesses, and the Revenue Service's insistence (again under the threat of penalties) on quarterly estimated tax payments by those receiving interest, dividends or other types of income not taxed at source.

On the other hand, the increasing spring build-up of overpayments – and of returns to be processed by the Revenue – is beginning to weigh heavily on taxpayer and tax collector alike. One way of lightening this burden would be to depart from the present system of annual accounting. A few months ago *The Tax Adviser*, a publication of the American Institute, suggested that the filing of Federal tax returns should be staggered – perhaps according to the taxpayer's birthday, or his social security number (commonly used as his identification code in the official records). American banks have adopted this procedure in rendering their monthly statements to customers. But the authorities have made no rejoinder to the eminently reasonable suggestion that a similar formula should be adopted for income tax returns. Any change that does not immediately speed up the total rate of payment is perhaps difficult, in present circumstances, to recommend to the Treasury.

Cynical comparison

Among the other changes resulting from the Tax Reform Act of 1969, one of the most complicated is the minimum tax provision. This has little relevance to taxpayers without a large proportion of 'sheltered' income. But, for them, it has added to the problems of correctly filling in their returns. The maximum tax provision, on the other hand, has helped all well-heeled taxpayers. Yet the top rate remains 70 per cent, together with the 2½ per cent surcharge – which compares as the cynics have observed, with a flat rate of 13 per cent under Russia's anti-capitalist régime.

Quite apart from the Tax Reform Act, the latest income tax forms contain a significant change along the lines discussed in these columns on June 4th, 1970. A new document, impressively known as 'Number 4683, United States Information Return on Foreign Bank, Securities and Other Financial Accounts' requires the taxpayer to declare whether he had an interest in a foreign account. After requesting details on such accounts, the Revenue Service generously adds the comment: 'If you wish, you may also submit any other information or explanation not required by this form concerning your interest in or authority over an account.'

Taxpayers who do not feel driven to unburden themselves unnecessarily to the Revenue have been following with some concern recent revelations of the extent to which the authorities have been disclosing tax secrets to other parties. Mr Randolph W. Thrower, Commissioner of Internal Revenue, is on record as having allowed members of the White House staff to inspect, in the public interest, a limited number of personal tax returns. The implication is that the returns should be completed with even more caution than in the past. And that the sandwich-men who have recently been displaying on the streets signs reading 'Income tax forms completed – $2' may not possess the skill required for the job. In these closely regulated days, it seems that there is more than one way in which the power to tax is the power to destroy.

Current Law

Sale of Goods – Fitness for Intended Purpose

THE House of Lords has overruled the decision of the Court of Appeal in *Christopher Hill Ltd v. Ashington Piggeries Ltd* (*The Accountant*, January 22nd, 1970).

This case related to the poisoning of a number of mink by reason of the inclusion of contaminated herring meal as an ingredient of a proprietary feeding compound, supplied by H to A's specification. Their lordships found that, within the terms of section 14 of the Sale of Goods Act 1893, A had made known the particular purpose for which the goods were required, viz. as food for mink, and the goods were unfit for that purpose. The herring meal was toxic, and A was entitled to rely on H not to produce a food which was poisonous to mink.

Although H, as found by the Court of Appeal, had never previously compounded a mink food, their business was to make up compounds for animal feeding, and they were using raw materials which they habitually handled. There was a breach of the implied condition of fitness under section 14, and the goods were of a description which it was in the course of H's business to supply.

Ashington Piggeries Ltd v. Christopher Hill Ltd ([1971] 1 All ER 847; 115 SJ 223).

Insurance Brokers: Agency

THE ambivalent position of Lloyd's insurance brokers as agents both of the assured and of the underwriters, which came before the Courts in *Anglo-African Merchants v. Bayley* (*The Accountant*, July 12th, 1969), has again been the subject of judicial criticism.

The owners of goods in transit by sea arranged an insurance, through brokers, with Lloyd's underwriters. A claim was subsequently made under the policy, and the underwriters, in accordance with normal practice, instructed the brokers who had placed the insurance to obtain an assessor's report. On the strength of that report, the underwriters were dissatisfied with the circumstances of the claim, and repudiated liability. In the course of legal proceedings to enforce their claim under the policy, the assured sought a declaration against the brokers that they were entitled to possession and delivery or inspection of any documents in the brokers' possession relating to or in any way connected with the insurance effected on their behalf, including the assessor's report.

Despite evidence that the brokers had acted in accordance with the long-established practice of the Lloyd's insurance market, Donaldson, J, declined to give legal effect to this practice. For a usage or custom of trade to have effect in law, it must be 'notorious, certain and reasonable'. In the present case, the judge doubted whether the usage was sufficiently notorious, as there was no evidence that any of the assured persons who entered into contracts affected by that usage had ever heard of it. It was also suggested that a practice that applied only to Lloyd's could not be said to be sufficiently widespread to amount to a market usage. The practice was, in the Court's view, 'wholly unreasonable and therefore incapable of being a legal usage'.

The Court, however, declined to order the delivery of the assessor's report to the plaintiffs, on the ground that this information was not acquired by the brokers in the service of the plaintiffs. Donaldson, J's observations at this point are perhaps worth quoting in full:

> 'In so far as [the brokers] acted for the defendant they were not acting in discharge of any duty towards the plaintiffs. [They] wore the plaintiffs' hat and the underwriters' hat side by side, and in consequence, as was only to be expected, neither hat fitted properly. The plaintiffs had a legitimate complaint on this account, and can claim damages if and to the extent that the partial dislodgement of their hat has caused them loss or damage. But what the plaintiffs ask in these proceedings is to be allowed to see what [the brokers] were keeping under the underwriters' hat, and for that there is no warrant.'

Whilst being at pains to emphasize that he had approached the present case independently and without reliance on the judgment in *Anglo-African Merchants v. Bayley*, Donaldson, J, expressed surprise that, in view of the terms of that judgment, the Committee of Lloyd's had not thought it proper either to require an alteration in the practice, or to take prompt steps by means of a friendly test action to resolve the matter in the Court of Appeal.

North & South Trust Co v. Berkeley ([1971] 1 All ER 980).

Agency: Insolvent Stakeholder

DURING negotiations for the purchase of property, a prospective purchaser paid a deposit of £2,075 to an estate agent nominated by the vendor. The transaction was not completed, and when the purchaser sought to recover the deposit from the estate agent it was found that he was insolvent and had used the money for his own purposes.

By a majority, the Court of Appeal held that the purchaser could recover the deposit from the vendor. Following *Ryan v. Pilkington* ([1959] 1 WLR 403), estate agents were employed by the vendor, and could do nothing except within the terms of their employment. It was the vendor who selected and employed the estate agent, and the vendor should bear the risk if that agent defaulted.

In a dissenting judgment, the Master of the Rolls said that when an estate agent received a deposit 'subject to contract', gave a receipt in his own name and put it into his own banking account, the proper inference was that he received it as stakeholder, and the purchaser had no right of recourse against the vendor. Persons should not pay deposits to estate agents unless they were of good standing and repute.

Burt v. Claude Cousins & Co Ltd and Another (115 SJ 207).

FINANCE AND COMMERCE

Reorganization Problems for Staveley Industries

FOR a long time now not much has gone right for Staveley Industries, at least not so far as the group's major machine tool interests are concerned. The company probably took more than its fair share of machine tool rationalization on its shoulders and, as a consequence, has had more than its fair share of trouble in terms of reorganization and rationalization costs.

The accounts from which this week's reprint is taken are, in fact, dominated by one aspect of rationalization. The trading profit does not include the trading loss applicable to the Craven-Swift division of the machine tool subsidiary. Craven-Swift was closed during the year and the accounting treatment of the division's trading loss and the terminal costs arising from the closure are stated in Note 2 to the accounts, which in its turn brings comment in the report of the auditors, Cooper Brothers & Co.

Mr H. R. Moore, Staveley's chairman, comments in his statement with the accounts that some considerable time will elapse before the actual costs of the closure and its consequential effects become fully known. However, the provisions made in the accounts are considered 'at this time' to be sufficient.

Mr Moore adds that the trading of the division became so abnormal that the distinction between normal trading and the cost of closure was impossible to determine. The bulk of the combined trading and closure loss of £3,691,000 was incurred prior to September 30th, 1970, and the load on the cash resources of the group since then is not expected to be more than £500,000.

Equity reduced

Since 1966 shareholders' equity has been reduced from £17,897,000 to £13,116,000, and shareholders are told by the chairman, who took over last October, that the very significant decrease in the reserves over the last few years reflects the harsh fact that substantial sums invested in the past have been lost.

But at least the cash position has lately been improved. The reduction in bank overdrafts and short-term debts shown in the accounts has been taken further during the current year by the use of the proceeds of the sale of the 50 per cent shareholding in Warner Swasey Asquith Ltd to The Warner & Swasey Company of Cleveland, Ohio. The deal was completed by cash payment on October 1st, 1970. There was a profit of £1,027,000 on the sale and the value is shown in the accounts at the realized amount of £2,065,000.

Note 7 to the accounts deals with this and other items making up the 'exceptional items not related to the trading of the year' shown in the profit and loss account. One exceptional item concerned a legal action relating to a subsidence which led to the closure of salt works at Stafford and the writing-off of £534,000.

Depreciation basis

Note 7 also indicates the results of a change in the basis of depreciation of plant and equipment to a more conservative basis so as to write off assets over a shorter period than in the past. In fact the change is to bring plant and equipment depreciation into line with rates applied to other classes of fixed assets.

A charge of £700,000 is needed to reflect the estimated reduction in book value of plant and equipment resulting from a retroactive application of the new policy. The additional cost will be an annual charge against profits of about £200,000 to be provided in current and future accounting periods. The chairman emphasizes that the change of policy 'is designed to show a more realistic view of the profits of the company and of the assets owned by it. It will not, of course, affect cash flow.'

A more conservative policy has also been applied throughout the group to the valuation of slow-moving stock. In the 1968–69 accounts it was stated that, due to inaccuracies in the physical count and in the maintenance of records, the auditors were unable to satisfy themselves as to the valuation of stocks of Staveley Machine Tools' two divisions. This position has been rectified and both the auditors and the directors are satisfied that stocks were properly valued at September 30th, 1971.

Rolls-Royce collapse

Inevitably Staveley Industries, as a major machine tool manufacturer through its subsidiaries, was caught up in the Rolls-Royce affair, Staveley Machine Tools being engaged on a contract for technically advanced machine tools in connection with the RB211 programme. This contract was handled by the now closed Craven-Swift division and is being completed in other factories of the group. It is considered that terminal provisions made in the 1969–70 accounts in connection with the Craven-Swift closure are adequate to cover all likely eventualities.

The bulk of current work for Rolls-Royce is for projects other than RB211. At the time of the collapse Rolls-Royce owed Staveley some £250,000, of which about half was concerned with RB211 programme contracts.

General economic developments since the Rolls-Royce collapse have been adverse in markets served by Staveley, and Mr Moore says that this is beginning to show in the order intake of most product groups although the machine tool group, in common with the rest of that industry, has experienced by far the sharpest set-back. Increases in costs have been more pronounced than expected and are counteracting improvements in internal efficiency and profitability.

It is considered difficult to predict the final effect of these influences on the current year's trading results and it seems only too clear that 1970–71 will be yet another year in which not much proves to have gone right for Staveley.

STAVELEY INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

expressed in £,000's

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 30th September 1970

	note	1970	*1969*
Turnover	1	53,160	*46,878*
Trading profit for the year (excluding Craven-Swift division for 1970)	2	2,357	*1,227*
Income from investments	3	24	*111*
Profit before interest		2,381	*1,338*
Interest charges	4	1,254	*1,253*
Profit before taxation		1,127	*85*
Taxation	5	498	*38*
Profit after taxation (excluding Craven-Swift division for 1970)		629	*47*
Minority interests		281	*133*
Profit (*1969—loss*) **after minority interests**		348	*(86)*
Deduct:			
Craven-Swift division losses on trading and closure	2	(3,691)	—
Add:			
Exceptional items not related to the trading of the year (*1969—deduct*)	7	221	*(2,490)*
Deficit after exceptional items	6	(3,122)	*(2,576)*
Transfer from reserves	19	3,266	*2,720*
		144	*144*
Dividends—gross			
Preference		49	*49*
Ordinary (1%) (*1969—1%*)		95	*95*
		144	*144*

The notes on pages [636 to 638] form part of these accounts. Auditors' Report page [638].

STAVELEY INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

expressed in £,000's

BALANCE SHEETS

30th September 1970

	note	The Group 1970	The Group *1969*	The Company 1970	The Company *1969*
Current assets					
Stocks	10	10,284	*13,720*	—	—
Debtors		14,837	*15,377*	212	*240*
Investment in course of realisation	11	2,065	—	—	—
Tax recoverable		17	*42*	17	*15*
Cash and bank balances		157	*118*	3	*1*
Tax reserve certificates		5	*35*	—	—
		27,365	*29,292*	232	*256*
Deduct					
Current liabilities					
Creditors	12	11,305	*10,747*	717	*655*
Taxation	13	96	*614*	—	—
Bank overdrafts		6,453	*7,927*	6,110	*6,104*
Proposed final dividend		95	*95*	95	*95*
		17,949	*19,383*	6,922	*6,854*
Net current assets		9,416	*9,909*	(6,690)	*(6,598)*
Subsidiary companies	14	—	—	27,288	*29,770*
Investments	16	265	*269*	128	*149*
Fixed assets	15	14,198	*17,664*	238	*297*
		23,879	*27,842*	20,964	*23,618*
Deduct					
Deferred taxation	17	777	*756*	—	—
Net assets		23,102	*27,086*	20,964	*23,618*
Representing					
Capital and reserves					
Issued share capital	18	10,464	*10,464*	10,464	*10,464*
Reserves	19	2,652	*5,918*	2,829	*5,464*
Shareholders' equity		13,116	*16,382*	13,293	*15,928*
Loan capital	20	8,320	*8,338*	7,671	*7,690*
Minority interests		1,666	*2,366*	—	—
		23,102	*27,086*	20,964	*23,618*

H. R. Moore
A. Frankel
Directors

The notes on pages [636 to 638] form part of these accounts. Auditors' Report page [638].

STAVELEY INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

expressed in £,000's

NOTES ON THE ACCOUNTS

1 Turnover

Turnover represents the amounts receivable by the Group in respect of goods supplied and services rendered excluding intra-Group transactions. The 1970 figure excludes sales of £1,924,000 by the Craven-Swift division of Staveley Machine Tools Limited.

2 Trading profit for the year

The trading profit for the year of £2,357,000 excludes the 1970 losses of the Craven-Swift division of Staveley Machine Tools Limited. The decision to close this division was taken during the year and in the view of the directors it is not possible to distinguish between the loss which should be attributed to the trading of the division during this period and the terminal costs arising on closure. For this reason the whole of the estimated loss attributable to the trading and closure of the Craven-Swift division has been shown as a separate figure in the profit and loss account. The trading profit for 1969 has not been adjusted to exclude the trading loss of the Craven-Swift division, which amounted in that year to £357,000.

On 1st October 1970 the Group disposed of its 50% interest in Warner Swasey Asquith Ltd. The profits of that company included in the trading profit for the year in these accounts amounted to £464,000.

3 Income from investments

	1970	*1969*
Quoted investments	—	*76*
Unquoted investments	17	*9*
Other interest	7	*26*
	24	*111*

4 Interest charges

7¼% Unsecured loan stock 1986/91	286	*286*
7½% Unsecured loan stock 1988/93	262	*262*
Bank overdrafts	594	*616*
Other loans repayable within five years	112	*89*
	1,254	*1,253*

5 Taxation on the profits for the year

UK corporation tax	211	*244*
Overseas taxation	14	*60*
	225	*304*
Transfer to (from) deferred taxation	273	*(266)*
	498	*38*

Deficit after exceptional items

£2,491,000 (*1969 £2,362,000*) of the deficit after exceptional items has been dealt with in the accounts of Staveley Industries Limited.

STAVELEY INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

expressed in £,000's

NOTES ON THE ACCOUNTS

7 Exceptional items not related to the trading of the year

	The Group		The Company	
	1970	*1969*	**1970**	*1969*
Surplus on disposal of interests in subsidiary companies	1,113	*35*	1,298	*126*
Surplus (loss) on disposal of fixed assets	117	*56*	(4)	*56*
Surplus on disposal of investments	—	*1,160*	—	*1,160*
Foreign exchange surplus	160	*47*	38	*47*
Taxation adjustments for prior years	45	*275*	—	—
Miscellaneous	20	*13*	29	*(1)*
	1,455	*1,586*	1,361	*1,388*
Less:				
Elimination of goodwill	—	*2,310*	—	—
Amount written off cost of shares in subsidiary companies	—	—	4,106	*3,865*
Provision for change in depreciation policy (see Note 15)	700	—	—	—
Closure costs and provisions arising out of a legal action	534	—	—	—
Exceptional losses on machine tool contracts relating to prior years	—	*566*	—	—
Product rationalisation and reorganisation costs	—	*1,200*	—	—
Net credit (charge) to profit and loss account	221	*(2,490)*	(2,745)	*(2,477)*

The comparative figures in the profit and loss account for 1969 have been amended to reflect the new treatment of exceptional items which previously had been charged to reserves.

8 Profit and loss account

	1970	*1969*
The following amounts have been credited or charged in the profit and loss account		
Credit:		
Rents from properties	32	*26*
Charges:		
Depreciation	1,571	*1,414*
Hire of plant and machinery	62	*77*
Auditors' remuneration	60	*60*
(Parent company 1970—£3,204: *1969—£2,405*)		
Directors' remuneration (see note 9)	121	*130*

9 Remuneration of directors of Staveley Industries Limited

	1970	*1969*
As directors	6	*8*
For management	107	*114*
Pensions to former directors	8	*8*
	121	*130*

The figure of £107,000 includes £10,000 paid as compensation for loss of office to two directors. The corresponding figure for 1969 includes £22,000 in respect of commutation of pension rights.

STAVELEY INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

expressed in £,000's

NOTES ON THE ACCOUNTS

	1970	1969
Emoluments (excluding pension contributions) of:		
Chairmen—D. W. G. L. Haviland		£18,334
M. H. Spieler	£3,741	£708
Highest paid director	£11,333	
Other directors in the scale:		
£ 0–£ 2,500	2	2
£ 2,501–£ 5,000	2	2
£ 5,001–£ 7,500	2	–
£ 7,501–£10,000	6	5
£10,001–£12,500	–	1

10 Stocks

Stocks have been consistently valued at the lower of cost and net realisable value. Substantially, cost includes material, direct labour and works overheads.

11 Investment in course of realisation

The amount shown represents the Group's 50% investment in Warner Swasey Asquith Limited at its agreed value of £2,065,000, realised for cash on 1st October 1970. The assets and liabilities of Warner Swasey Asquith Limited have not been consolidated but no adjustment has been made to the corresponding figures for 1969.

12 Creditors

Group creditors for 1970 include an amount of £415,000 in respect of the net future liability on closure of the Craven-Swift division of Staveley Machine Tools Limited. The assets and liabilities of this division at 30th September 1970 have been included at their estimated realisable values, full provision having been made for estimated terminal costs.

13 Taxation

Taxation includes a provision of £64,000 (*1969—£236,000*) for corporation tax at 42½% (*1969—45%*) payable on 1st January 1972. Undistributed profits of £769,000 (*1969—£759,000*) in overseas subsidiaries are liable to overseas and United Kingdom tax if declared as a dividend.

14 Subsidiary companies

	1970	1969
Shares at cost less amounts written off	18,075	22,189
Amounts owing by subsidiary companies	19,271	16,910
	37,346	39,099
Amounts owing to subsidiary companies	10,058	9,329
	27,288	29,770

The cost to the parent company of shares in the machine tool group has been reduced by a further £4,106,000, principally to reflect the trading and closure losses of the Craven-Swift division.

STAVELEY INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

expressed in £,000's

NOTES ON THE ACCOUNTS

15 Fixed Assets

	THE GROUP					THE COMPANY			
	Freehold Properties	Leasehold Properties		Plant and equipment	Total	Freehold Properties	Leasehold Properties	Plant and equipment	Total
		Long Term	Short Term				Short Term		
Cost or valuation									
At 30th September 1969	*7,283*	*88*	*125*	*18,310*	*25,806*	*374*	—	*79*	*453*
Previously under construction	1,454	—	—	2,248	3,702	—	—	—	—
Foreign exchange adjustment	29	—	—	55	84	—	—	—	—
Additions less investment grants	242	22	37	1,018	1,319	117	22	13	152
Disposals	(653)	—	—	(1,112)	(1,765)	(258)	—	(20)	(278)
In course of realisation (Note A below)	(545)	—	—	(1,908)	(2,453)	—	—	—	—
At 30th September 1970	7,810	110	162	18,611	26,693	233	22	72	327
Depreciation									
At 30th September 1969	*1,967*	*12*	*42*	*10,159*	*12,180*	*107*	—	*49*	*156*
Foreign exchange adjustment	8	—	—	26	34	—	—	—	—
Acquisitions	—	—	—	—	—	27	—	2	29
Charge in year	192	4	7	1,368	1,571	—	—	9	9
Disposals	(174)	—	—	(682)	(856)	(95)	—	(10)	(105)
In course of realisation (Note A below)	(81)	—	—	(928)	(1,009)	—	—	—	—
Provision for change in depreciation policy (Note B below)	—	—	—	700	700	—	—	—	—
At 30th September 1970	1,912	16	49	10,643	12,620	39	—	50	89
Net book value at 30th September 1970	5,898	94	113	7,968	14,073	194	22	22	238
Loose tools and patterns at cost less amounts written off: (*1969 £336,000*)					125				—
					14,198				238
Cost or valuation comprises									
Cost	5,885	110	162	16,587	22,744	140	22	72	234
Valuation									
1947 to 1960	1,088			949	2,037	32			32
1965	145			654	799				
1967	511			92	603				
1968	61				61	61			61
1969	120			303	423				
1970 (Directors' valuation)				26	26				
	7,810	110	162	18,611	26,693	233	22	72	327

Notes: A. This refers to the fixed assets of Warner Swasey Asquith Ltd. and Craven-Swift division. The accounting treatment of these items is explained in notes 11 and 12 to the accounts.

B. Depreciation is calculated to write off the cost of fixed assets, after deducting investment grants, during their expected normal lives and is based on equal annual instalments. From 1st October 1970, depreciation rates are to be revised and a provisional amount of £700,000 has been transferred from profit and loss account to accumulated depreciation in order to reduce the assets to the appropriate written-down value at 30th September 1970.

STAVELEY INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

expressed in £,000's

NOTES ON THE ACCOUNTS

16 Investments

	The Group 1970	The Group *1969*	The Company 1970	The Company *1969*
Cost (less amounts written off)				
Quoted	1	*1*	—	—
Unquoted	264	*268*	128	*149*
	265	*269*	128	*149*
Valuation:				
Quoted—market value	2	*2*	—	—
Unquoted—directors' valuation	273	*288*	128	*149*
	275	*290*	128	*149*

The investments include interests in the following companies. Details of the holdings in these companies are shown on pages 14 and 15.

Bradleys Concrete (partnership)	Tilghman Wheelabrator Australia (Pty.) Ltd.
Indabrator Ltd.	Tilghman Wheelabrator Kent (Pty.) Ltd.
Steel Abrasive Co. Pty. Ltd.	Wheelabrator Tilghman Entstaubungs GmbH.

17 Deferred Taxation

The amount of £777,000 represents deferred taxation at the rates ruling at 30th September 1970 resulting in the main from depreciation allowed for tax purposes on fixed assets being greater than that provided in the accounts.

18 Share Capital

	Authorised 1970	Authorised *1969*	Issued and fully paid 1970	Issued and fully paid *1969*
Ordinary shares of £1 each	9,524	*9,524*	9,524	*9,524*
Unclassified shares of £1 each	2,036	*2,036*	—	—
5¼% Cumulative preference shares of £1 each	940	*940*	940	*940*
	12,500	*12,500*	10,464	*10,464*

19 Reserves

	The Group	The Company
At 30th September 1969	*5,918*	*5,464*
Deduct transfer to profit and loss account	3,266	2,635
At 30th September 1970	2,652	2,829

Includes share premium £220,000 (*1969—£220,000*)

STAVELEY INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

expressed in £,000's

NOTES ON THE ACCOUNTS

20 Loan Capital

	The Group 1970	The Group *1969*	The Company 1970	The Company *1969*
7½% Unsecured loan stock 1986/91 redeemable at par on or after 30th September 1986	3,812	*3,812*	3,812	*3,812*
7½% Unsecured loan stock 1988/93 redeemable at par on or after 30th September 1988	3,500	*3,500*	3,500	*3,500*
Loans repayable within five years	1,008	*1,026*	359	*378*
	8,320	*8,338*	7,671	*7,690*

21 Capital Commitments

	The Group 1970	The Group *1969*
Contracted for	632	*186*
Authorised but not contracted for	618	*788*

22 Contingent liabilities

There were contingent liabilities for bills receivable discounted, guarantees given and other possible obligations amounting to £77,000 (*1969—£50,000*) for the Group; £1,051,000 (*1969—£851,000*) for the Company. In addition there are possible claims on which no liability is expected to arise.

23 Overseas assets, liabilities and profit and loss account items

Assets, liabilities and profit and loss account items in overseas currencies have been converted into sterling at the rates ruling on 30th September 1970.

AUDITORS' REPORT TO THE MEMBERS

We report on the accounts set out on pages [635 to 638].

As stated in the accounts and in note 2, the trading profit for the year of £2,357,000 does not include the trading loss applicable to the Craven-Swift division of Staveley Machine Tools Limited, whose closure was announced during the year. The trading loss of this division and the terminal costs of closure, amounting in total to £3,691,000, could not satisfactorily be segregated and are shown as an exceptional item in the profit and loss account.

With this reservation regarding the segregation of the trading loss of the Craven-Swift division, in our opinion, based on our examination and the reports of the auditors of certain subsidiaries not audited by us, the accounts set out on pages [635 to 638] together give a true and fair view of the state of affairs at 30th September 1970 and of the results for the year ended on that date and comply with the Companies Acts 1948 and 1967.

London,
14th January 1971

Cooper Brothers & Co.
Chartered Accountants

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CITY NOTES

THIS week's currency moves have shown two things – that individual national requirements will, in crisis, always be put before any international groupings or agreements, and that if the currency mountain remains immovable the various other currency Mohammeds will have at least to bow to it if not go to it.

The German mark had to be revalued by free dealings because the American dollar was, and still is, too cheap. But the sacrosanct dollar will not voluntarily be devalued and there is, as yet, no currency power strong enough to enforce devaluation.

If the latest currency sort-out in Europe has convinced the French that Britain ought to be in the Common Market, and as a result there is a merger of EEC and EFTA, there is the possibility of a force developing strong enough to command devaluation of the dollar. The force would be the eventual creation of a unified European currency.

But all that is a long way off. Until then the dollar will be in command at its present parity aligned to the official price for gold. Other currencies will have to find their levels in relation to the American currency. The creaking machinery of fixed parities will continue to be patched up and made to operate as it has operated under mechanical duress these past ten years and more.

* * * *

THE need to adjust premiums to the rate of inflation is the recurring theme in this year's statements by insurance company chairmen. That is probably inevitable but there is another theme which is more reassuring: the accumulating evidence that at long last the results of the industry's regrouping and reorganization are becoming apparent. On top of this the reduction in SET is going some way towards reducing costs. If through the turmoil of the past decade and through the inflationary changes of the past year and more, the insurance industry is emerging as more efficient and more alive to the need to move premiums more quickly, then the industry can progress towards a period of greater strength and stability. The feeling in the industry may be typified by the closing sentence in Mr R. E. Fleming's statement to shareholders of Sun Alliance and London Insurance: 'The year now closed has seen, as I hoped, a worth-while step forward and I see no reason why progress should not continue.'

* * * *

A NICE point on the interest rate structure of building societies was made this week at The Building Societies Association's annual conference in Edinburgh. Mentioning the April 1st reduction in Bank rate from 7 to 6 per cent the Association's chairman, Mr Fuller Osborn, commented that 'on this subject we may at last have convinced financial journalists that our rate structure is not geared to Bank rate but to the general level of interest rates in the economy'.

It is undoubtedly a factor that the financial press in the past has been more concerned with building society rates of interest than with the availability, or otherwise, of building society money. For the house buyer the concern is the other way round. The first concern is to get a mortgage on which the monthly payments can reasonably be met. The rate of interest, as such, is not of immediate concern even though it is admittedly a factor in the size of the monthly repayment required.

Building societies compete for funds, and interest rates on loans can only be reduced when it is clear that the parallel reduction in interest rates on investments will not lead to a reduced investment inflow.

Another cut in Bank rate, however, would see Mr Osborn's theory of a convincing argument put to a severe test, particularly if the building societies reacted in their normally cautious way to such an event.

RATES AND PRICES

Closing prices, Tuesday, May 11th, 1971

Tax Reserve Certificates: (26.4.71) Companies 4½%; 2½% surrendered for cash; Personal 4%

Bank Rate

Nov. 9, 1967	6½%	Feb. 27, 1969	8%
Nov. 18, 1967	8%	Mar. 5, 1970	7½%
Mar. 21, 1968	7½%	April 15, 1970	7%
Sept. 19, 1968	7%	April 1, 1971	6%

Finance House Base Rate – May 1st, 1971. 7½%

Treasury Bills

Mar. 5	£6·6940%	April 8	£5·7849%
Mar. 12	£6·6659%	April 16	£5·7561%
Mar. 19	£6·6416%	April 23	£5·7081%
Mar. 26	£6·6242%	April 30	£5·6844%
April 2	£5·8293%	May 7	£5·6840%

Money Rates

Day to day	3½–6%	*Bank Bills*	
7 days	4½–6%	2 months	7–7⅛%
Fine Trade Bills		3 months	7–7⅛%
3 months	7½–8%	4 months	7–7⅛%
4 months	7½–8%	6 months	7 1/16–7 3/16%
6 months	7¾–8%		

Foreign Exchanges

New York	2·4170	Frankfurt	8·6150
Montreal	2·4362	Milan	1504·50
Amsterdam	8·5700	Oslo	17·1885
Brussels	119·92	Paris	13·3775
Copenhagen	18·1410	Zürich	9·9400

Gilt-edged

Consols 4%	44¾	Funding 6% 1993	72⅛
Consols 2½%	27⅞	Funding 6½% 85–87	81⅞
Conversion 3½%	38⅞	Savings 3% 65–75	88
Conversion 5% 1971	99⅞	Treasury 6½% 1976	98½
Conversion 5¼% 1974	96 11/16	Treasury 3½% 77–80	74⅞xd
Conversion 6% 1972	99 13/16	Treasury 3½% 79–81	73⅞
Funding 3½% 99–04	46¼	Treasury 5% 86–89	67
Funding 4% 60–90	97⅝	Treasury 5½% 08–12	63⅜
Funding 5¼% 78–80	84⅛xd	Treasury 2½%	27⅝
Funding 5½% 82–84	81¾	Victory 4%	96
Funding 5¾% 87–91	72	War Loan 3½%	38¼

Taxation Cases

Restorick v. Baker

In the High Court of Justice (Chancery Division) – March 5th, 1971

(Before Mr Justice FOSTER)

Income tax – Family allowances – Two children – Whether taxpayer liable to reduction of personal reliefs – Income Tax Act 1952, sections 210, 212, 219, 355, 377 – Family Allowances Act 1965, section 1 – Family Allowances Act (Northern Ireland) 1966 – Family Allowances National Insurance Act 1967 – Family Allowances National Insurance Act 1968, section 1 – Finance Act 1968, sections 14, 15, 31 – Finance Act 1969, section 11 (6).

The taxpayer was entitled during 1968–69 to a family allowance in respect of his younger son. He was also entitled to personal reliefs, but the Revenue reduced the total thereof by £36 under section 14 (4) of the Finance Act 1968, which directed that personal reliefs:

> shall be reduced, for each allowance if more than one, by an amount equal to tax at the standard rate on £36.

It was contended for the taxpayer that he was assessable only if he was in receipt of more than one family allowance; and that he could not have his relief reduced without clear words to that effect. It was contended for the Revenue that section 14 (4) applied to a taxpayer even though he was in receipt of an allowance for only one child. The General Commissioners decided in favour of the taxpayer.

Held: the General Commissioners' decision was correct.

More v. Elders

In the High Court of Justice (Chancery Division) – March 12th, 1971

(Before Mr Justice FOSTER)

Capital gains tax – Short-term gains – Purchase of land – Quick resale – Whether purchase was for the purpose of reselling – Finance Act 1962, sections 10, 11.

On March 5th, 1965, the taxpayer agreed with British Railways to purchase a part of a disused railway station, which he occupied. On March 23rd, 1965, he received two letters, delivered by hand, one from Mobil Oil Co Ltd and the other from the National Benzole Co Ltd. The Mobil letter referred to discussions that the taxpayer had had with the company's representative regarding the piece of land, and then set out an offer subject to board approval and contract. On March 29th, 1965, contracts were exchanged between British Railways and the taxpayer for the purchase by him of the piece of land for £9,000. On April 2nd, 1965, the taxpayer granted to Mobil an option to purchase the land for £30,000. On April 26th, 1965, completion took place between British Railways and the taxpayer. On May 12th, 1965, Mobil exercised its option, and on July 30th, 1965, the sale to Mobil was completed.

An assessment was made on the taxpayer for 1964–65 on the footing that these transactions enabled the taxpayer to obtain a short-term capital gain under section 10 of the Finance Act 1962. For the taxpayer it was contended up to March 29th, 1965, he did not contemplate selling the land; that it was only on April 2nd, 1965, that he changed his mind because the price of £30,000 offered by Mobil was too good to be refused; and that these facts showed that the acquisition of the land was not for the purpose of re-selling it; and that therefore there had not been a short-term capital gain within section 11 (7) of the Act. It was contended for the Revenue that the taxpayer had acquired the land from British Railways with a view to re-selling and that he had obtained a gain from the disposal of it within section 11 (7); and that the transaction was therefore not exempt from assessment under Case VII of Schedule D. The General Commissioners decided in favour of the Revenue.

Held: the decision of the General Commissioners was correct.

Clayton v. Gothorp

In the High Court of Justice (Chancery Division) – March 30th, 1971

(Before Mr Justice PLOWMAN)

Income tax – Employment – Course of instruction – Interval in employment – Loan by employer – Equal to salary for broken period – Loan to be cancelled if employment resumed for stated period – Whether loan taxable – Year of assessment – Income Tax Act 1952, sections 156, 458 – Finance Act 1956, Schedule II, paragraph 1.

The taxpayer's wife was employed by a county council as an assistant health visitor. She was accepted by Bradford University for a nine-month course which, if she were successful, would entitle her to the certificate for health visitors in the United Kingdom. She gave up her employment with the county council, and started her course the next day. Earlier she had signed an agreement, the effect of which was that the county council lent her a sum of money equal to the amount of the salary, which she would have drawn if her employment had not been interrupted. The loan was on the condition that if she returned to her employment for a period of not less than 18 months, the loan would be cancelled. The sum in question was £637·10, and it was paid by monthly instalments during the course.

Mrs Gothorp was successful on the course, and she duly returned to the county council's employment as a health visitor. She remained in her employment until three days after the period of 18 months had expired, and the loan had thereupon ceased to be repayable. That was in 1967–68.

The taxpayer was assessed in respect of £637, and it was contended for the Revenue that the sum was an emolument of his wife's employment for 1967–68. It was contended for the taxpayer that the obligation to repay the loan was not an obligation in Mrs Gothorp's service agreement but was an obligation under a separate loan agreement. The General Commissioners decided in favour of the taxpayer.

Held: the arrangement for the discharge of the obligation to repay the loan was a reward for services, and the £637 was a taxable receipt in 1967–68.

London Chartered Accountants' Annual Meeting

THE twenty-ninth annual general meeting of the London and District Society of Chartered Accountants was held at Chartered Accountants' Hall on Thursday of last week. Moving the adoption of the report and accounts, the Chairman, Mr B. E. Basden, M.A., F.C.A., said:

'The events of the past year are dealt with fully in our report [*The Accountant*, April 22nd], though I fully appreciate that it is not possible to do justice, either in the printed word or this evening, to all that goes on during the Society's year and all the work that is put into the success of the many events.

'Firstly, our centenary was celebrated quietly, with a due emphasis under present circumstances on economy. I was very proud to present the fine silver centrepiece, which is illustrated in our annual report, to the President at the occasion of our annual dinner. This was subscribed for by a large number of small donations given by members in addition to other gifts for the Institute's collection. The public occasion was the dance at Grosvenor House, where 1,100 attended, which is almost a record in the Society's history.

'Secondly, the programme seemed as popular as ever and it was most encouraging to see the particular interest awakened in auditing matters, where the courses on accounting principles and modern auditing were oversubscribed. The management courses had the same high standard and deserve to be more widely known. The programme made a record contribution to our overheads, but our charges will regrettably have to be reviewed in 1971–72, not having been increased since 1969.

'One event which I should like to mention particularly was the Small Practitioners Conference held in March at Brighton. This proved such a success that it will be repeated in 1971–72 as an extra item in our programme.

Branches and groups

Coming now to branches and groups, the highlight here, of course, is the Croydon group which was formed scarcely two years ago under the chairmanship of Mr E. J. Nichols. I am delighted to be able to announce that at the Council meeting yesterday, formal approval was given to the granting of branch status. This branch has made a splendid start and we wish them every success in the future.

'With regard to recruitment, tremendous strides have been made in many fields in the past twelve months. The climax of the year was the sixth-formers' course in April, for which we had 550 applications of whom 240 were invited and some 300 turned up. All these pupils are sitting "A" levels this year or next, and there seems to be no shortage now of recruits of this calibre should the Institute decide to adopt a minimum two "A" level entry this year.

'We have plenty of ideas, but there is a physical limit to what we can do with an overstrained secretarial staff in a small office. We must plan the expansion of our activities and plan the resources we shall need to achieve it. From increased participation of members we can, I am sure, raise the revenue we shall need for activities which members want.

More participation

'There is a much greater awareness of Institute affairs throughout the whole of the profession. Outside criticism, a spectacular reversal of Council policy and financial setbacks themselves, bring the Institute into the news. Many more members are now anxious to find out what is going on, to come and see something of our activities and to take part.

'Secondly, the Institute's new working party has been set up to review district society organization, with particular emphasis on members' participation and communications. The chairmanship, I am delighted to say, has gone to our immediate past chairman, David Richards. We wish them every success and appreciate that any radical changes must await this committee's findings. The London and District Society is, however, unique in the Institute's structure and we must begin to solve some of our problems ourselves.

'Thirdly, I should remind you that last year marked a hundred years since the Institute of Accountants was formed in London. This year it will be fifty years since the new London members' committee was re-formed in 1921. Next year it will be thirty years since we adopted our new constitution and the present rules. If any time is opportune for us to have a new think about the future, that time is now.

'Finally I should like to say how proud I am that I should have had the privilege of holding the office of Chairman of the Society during our centenary year, and to express my tremendous gratitude to all those who have given support and contributed so much to such progress as we have been able to achieve.'

The report and accounts were then adopted.

Elections to committee

On the report of the scrutineers, the result of the election for membership of the committee was declared as follows:

Members in practice: Messrs N. Cassleton Elliott, B. G. Jenkins, Ian Macfarlane and F. J. G. Whinney.

Members employed in the service of a practising accountant: Messrs P. A. Davis, C. A. Parritt and B. J. Wilson.

Members not in either of the foregoing categories: Messrs L. T. Gardner and C. R. Shaw.

MEMBERS' QUESTIONS

Following the formal business, the Vice-President of the Institute, Mr D. S. Morpeth, T.D., B.COM., F.C.A., addressed the meeting and answered questions from members.

Accounting for inflation. – It was not the Institute's intention to tear up Recommendation No. 15 [*The Accountant*, May 31st, 1952]. First, it was necessary to find an acceptable alternative. To be acceptable the alternative would need to be of universal application and would probably have to take into account tax consequences. It was necessary, therefore, that it should meet with the approval of the whole industrial and financial complex of the country. The Accounting Standards Steering Committee was certainly making an attempt to find the acceptable alternative,[1] but in the circumstances outlined it was not yet possible to say that one had been found.

Subscriptions. – The Vice-President told the meeting that the Special Committee was looking at the services provided by the Institute for members and considering what services were needed. This involved a consideration of subscription levels and of the sources from which those subscriptions should be derived.

Participation by members. – A member inquired whether, instead of all the lecture courses and Handbook statements, it would not be more appropriate for debates to be held in order that members of the Institute could freely voice their opinions. The Vice-President suggested that, after the experience of meetings in connection with future plans, it was at least open to question whether many members would attend. The question whether some courses could be made more of a forum for debate on the main issues facing members of the Institute would be considered.

Exposure drafts. – Another member asked why the membership had not been consulted on Accounting Standards Steering Committee statements and the Vice-President pointed out that everyone had the opportunity of expressing their views on exposure drafts, either direct to the Institute or through their District Societies. The exposure drafts were published in full in *Accountancy* and *The Accountant*, and copies were available on request to every member.

Purpose of accounting standards. – The question was asked whether the introduction of Accounting Standards was the wish of the membership or the result of outside influence. The Vice-President said that the object was to make accounts more definitive so that they could be more readily understood by the public. There had been serious risk that, if the Institute had not been prepared to take this matter in hand itself, then the initiative would have been taken away from it by the Department of Trade and Industry.

On a question on the mandatory nature of the standards, the Vice-President said that experience of the Institute's recommendations which by their nature were not mandatory made it clear that (in the interest of the public) something more mandatory was required. The mandatory aspect was to require the auditor to disclose and justify failure to apply a relevant standard, and not to require a standard to be applied in circumstances where to do so would be unjustifiable or prejudicial to the true and fair view.

The Vice-President pointed out that whilst it was fully appreciated that an answer to the problem 'What are accounts meant to do?' was logically the first step, yet pressures on the Institute made it necessary to proceed in the manner in which the Accounting Standards Steering Committee was working.

[1] See 'The New Agag', page 614.

Letters

ACCA/ICWA Merger Suggested

SIR, – It was interesting to read the letter from Mr Turnock in your issue dated April 29th, advocating that practising members of the Certified Accountants' Association join one of the Chartered Institutes, thereby leaving the Association concerned solely with the interests of those in commerce, industry and government. Certainly this is in keeping with current government philosophy of hiving off non-related activities, but as in a number of cases these have been the main if not the only profit makers, perhaps one should not draw this analogy too far in this instance.

However, what is puzzling is having gone so far, why did not Mr Turnock continue his proposition to its logical conclusion, i.e., a merger of the Association with the Institute of Cost and Works Accountants. I use the term 'merger' advisedly, for even with the reduced membership of the Association, the two bodies would be roughly on a par numerically, and surely as the aims, objectives, and interests of the two bodies would be by and large much the same, there would seem to be little point in their continued separate existence.

Should these circumstances come about, the situation would then be rather similar to that in Australia, as also reported in the issue of the 29th, where there is a chartered body concerned with the interests of members in practice and a second body – the Society – concerned with members in commerce, industry, etc. It could be argued that this is not the ideal, as evidenced by a recent attempt to join these two bodies into one, but the attempt failed – maybe for good reasons.

Whilst the elimination of one accounting body may fall far short of complete integration, the latter is really not on and further discussion at this moment in time pointless; it is a step in the right direction and possibly preferable to complete integration.

The arrangement of the accounting profession into two streams would give recognition to their differences in the past, at present, and for the future, and as an added advantage without being divisive there would remain a substantial element of competitiveness which we are forever being told is very good for everyone.

Yours faithfully,

London NW3. E. F. CHUBB.

The Institute of Chartered Accountants in England and Wales

Special and Ordinary Meetings of the Council

At special and ordinary meetings of the Council held on Wednesday, May 5th, 1971, there were present:

Mr C. Croxton-Smith, President, in the chair; Mr A. H. Walton, Deputy President; Mr D. S. Morpeth, T.D., Vice-President; Messrs J. F. Allan, J. A. Allen, G. R. Appleyard, B. D. Barton, Sir Henry Benson, G.B.E., Messrs D. A. Boothman, L. H. Clark, D. A. Clarke, R. W. Cox, S. Dixon, S. M. Duncan, J. V. Eastwood, Professor H. C. Edey, Messrs S. Edgcumbe, W. W. Fea, R. W. Foad, C.B.E., E. J. Frary, R. F. Griffiths, S. R. Harding, W. Hare, M. R. Harris, J. S. Heaton, J. A. Jackson, A. W. John, C.B.E., G. B. Judd, R. O. A. Keel, S. Kitchen; Sir Ronald Leach, C.B.E., Messrs M. G. Lickiss, J. Lunch, B. A. Maynard, W. R. McBrien, E. C. Meade, S. A. Middleton, W. Bertram Nelson, C.B.E., E. J. Newman, C.B.E., D. G. Richards, D. W. Robertson, J. D. Russell, E. C. Sayers, K. J. Sharp, T.D., R. G. Slack, H. G. Smith, G. Tattersall-Walker, C. C. Taylor, R. H. Taylor, A. G. Thomas, R. P. Tovey, D. N. Walton, J. Whitehead, R. G. Wilkes, O.B.E., T.D., J. C. Montgomery Williams, R. G. Williams, E. K. Wright.

University and CNAA Degree Courses

Exemption from the Intermediate Examination

The following statement was approved for publication:

The Council has approved the following new or amended university and CNAA degree courses under bye-laws 88 (*a*) and 88 (*c*) respectively. These courses are, therefore, recognized not only for reduction in service under articles but also for exemption from the intermediate examination of the Institute:

University degrees (Amendments to courses formerly approved for the purpose of the scheme)

University of Bristol: Bachelor of Arts in Social Sciences in the Joint School of Economics and Accounting.

University of Dublin (Trinity College): Bachelor in Business Studies.

University of Lancaster: Bachelor of Arts with Honours in Financial Control and Bachelor of Arts with Combined Honours in Economics and Financial Control.

University of Sheffield: Bachelor of Arts in the Faculty of Social Sciences.

CNAA degrees (Amendments to courses formerly approved for the purpose of the scheme)

Thames Polytechnic: Bachelor of Arts Honours (Business Finance and Financial Policy option), and Ordinary Degrees in Business Studies.

CNAA degrees (New Courses)

Kingston Polytechnic: Bachelor of Arts Ordinary degree in Business Studies.

City of Leicester Polytechnic: Bachelor of Arts Ordinary degree in Business Studies.

Degree courses approved by the Council are in some cases a selected part of a larger course and precise details may be obtained from the Institute on request.

Sandwich Degree Courses – Additional Quota of Articled Clerks

The Council approved the following statement for publication:

In order to facilitate the recruitment of sandwich degree students as articled clerks:

In addition to his normal quota of four articled clerks, a principal is permitted one extra articled clerk held in a supernumerary capacity throughout the entire period of articleship provided that on the first day of service the clerk is either:

(*a*) a student following a full-time sandwich degree course; or

(*b*) a person producing valid documentary evidence of having been offered, and having accepted, a place on a sandwich degree course starting within one year of commencement of articles.

Nine months' full-time Courses for Articled Clerks

The following statement was approved for publication:

The Council announces that the following additional college has been invited to participate in the provision of a nine months' full-time course for the session commencing September 1971.

Oxford Polytechnic.

Registration of Articles

The Secretary reported the registration of 178 articles of clerkship during March 1971, the total number for the year ended March 31st, 1971, being 4,570. Comparative figures for 1970 were 149 and 4,263.

Admissions to Membership

The following were admitted to membership of the Institute:

Ahrens, Richard John, B.A., London EC2.
Aigbe, Festus Olushola, London NW6.
Akbar, Mohammed Yahya, Karachi.
Allan, Peter Robert, B.A., London N22.
Allan, Robert David Frederick, Rothesay.
Amin, Harish Jashabhai, New Malden.
Amiri, Farrokh Nosseiri, London SW16. (Resident Abroad.)

a indicates the year of admission to the Institute.

aS indicates the year of admission to The Society of Incorporated Accountants.

‡ Practice is not members' main occupation.

Firms not marked † or * are composed wholly of chartered accountant members of the Institute.

† against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

* against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

Anderson, Kenneth Andrew, Burton-on-Trent.
Andrews, Roger David, London SW7.
Angus, Thomas, West Molesey.
Ansell, Anthony Arnold, Harrow.
Aristodemou, Menelaos, London EC4.
Arnott, Peter Harry, Harrow.
Auguste, Peter, Brighton.
Avery, Michael Paul, Southall.

Baldridge, Michael, Leeds.
Baldwin, William, London SW5.
Ballinger, Brian Anthony, Leamington Spa.
Barker, Ian, M.A., London NW5.
Beard, Brian Michael, Bath.
Bellenie, Reginald Alan, Bromley.
Bennett, Christopher Midwood, East Molesey.
Bernard, Keith Murray, Seend.
Biddick, Peter John, Earith.
Bifulco, Vincent, London W5.
Bisseker, Tilden John, M.A., Beckenham.
Blagg, Roy, Worcester.
Braceiner, Abraham Jacob, London N3.
Brooke-Hunt, Timothy, Horsham.
Brooks, Clive Percy, Burton-on-Trent.
Brown, Bernard Samuel, B.SC., Chesham.
Brown, Colin Robert James, Westcliff-on-Sea.
Bruce, Alastair James, Exeter.
Buckley Sharp, Nicholas, London, NW3.
Bussey, Anthony Brian Seaton, London SE4.
Byron, Anthony John Greig, Bury St Edmunds.

Calhoun, Martin James, Holywell.
Calvert, Peter Mackenzie, Birmingham.
Cane, David Alexander, London W14.
Cann, Andrew John, B.SC., Bromley.
Canter, Graham Roger, Edgware.
Carr, Jonathan Charles, Moreton-in-Marsh.
Carver, (Mrs) Margaret Sandra, London N20.
Carver, Nicholas John, London N20.
Cass, Malcolm Leslie, London W2.
Charing, Simon Lawrence, London N5.
Charles, Clive Marcus Bolton, London EC2.
Cheung, Stephen Man, Hong Kong.
Christie, Hamish Alexander, Prestbury.
Clatworthy, Philip Thomas, Woodford Green.
Clayton, David Harry, Teddington.
Clerk, Steven Francis, Trinidad.
Cole, Charles Howard, Quorn.
Colville, Derek Sinclair Walter, Solihull.
Cooksey, Hugh, London SW1.
Cooper, (Miss) Kay, Walton-on-Thames.
Copp, Peter Richard, Romford.
Cotgrove, Peter Leonard George, Dagenham.
Cottrell, David, B.A., Bristol.
Cowell, Richard Stainsby, B.A., Hazel Grove.
Cox, John, Walsall.
Cunningham, Peter Nisbet Bruce, Hove.

Daffurn, John Stephen, London NW6.
Darby, Roger Michael, Stourport-on-Severn.
Davidson, Anthony Paul, Sheffield.
Davies, Glen, B.SC., Manchester.
Dawes, Brian Richard, London W5 3DR.
Day, James Spencer Fitzgerald, London EC4.
Deakin, (Mrs) Anne Catherine, Fareham.
Denham, Timothy Maurice, London W8 7EF.
Dewey, Anthony Frederick, Dudley.
Dick, James Andrew, B.A., Croydon.
Dicken, Peter John Trueman, Wells.
Dina, Rafiq Ahmed, London WC1.
Dixon, Charles William, London SW5.
Dixon, Robert Charles, London SW16.
Dovey, Richard Peter, Newport, Mon.
Downey, Peter James, Frodsham.
Doyle, Patrick Joseph, Birmingham.
Drakeford, Andrew Jefferson, Blantyre.
Drayton, Keith William, Erith.
Dubash, Merwan, London NW2 4DX.
Duggan, Richard Whitman, B.SC., London SE5.
Durbin, Peter Charles Robertson, B.A., London W14.
Durrant, Nigel Peter, B.SC., Bristol.
Durrant, Richard Norman, Croydon.
Dyer, Keith, Birmingham.

Edmondson, Alan Douglas, Louth.
Edwards, Frank Keith, London W11.
Edwards, Mervyn William Barclay, Leeds.
Etches, Nicholas Peter, Esher.
Evans, Paul Martin, Bromsgrove.
Evison, David Paul, Oswestry.

Faiz, Ch. Mohammad Naqi, London N16 5QS.
Farmbrough, Brian Richard, London W3.
Firth, David, B.SC., Liversedge.
Fisher, Anthony Frederick, Dalton-in-Furness.
Fitt, Peter Wilfrid Edgar, Colchester.
Fokes, Brian Ronald, Brighton.
Ford, David John, Gravesend.
French, David John, Southall.

Gautrey, Trevor, Burgess Hill.
Gaymer, Nigel Anthony Plumptre, London SE25.
Giffard-Taylor, Barry, Pinkneys Green.
Goh, Kong Teng, Jersey.
Goldthorpe, David Ian, B.SC., Sheffield.
Gordon, Christopher Murray, Bognor Regis.
Gorman, Jeremy Philip, Northwood.
Grisdale, Peter, B.SC., Chelmsford.
Grundy, John Edward, Buckhurst Hill.
Gunney, Colin Hugh, Dorking.
Gunns, Michael Anthony, Sandy.

Hall, Nicholas James Humphreys, Leeds.
Hallam, John Edward, Cheam.
Halsey, Michael John, B.SC., Sutton.
Harris, Michael John, Gravesend.
Harris, (Miss) Susanna Gibson, London SW13.
Harrison, Colin David, London E11.
Harvey, Richard Martin, Crawley.
Harwood, George Leslie, Newcastle upon Tyne.
Hawkins, Douglas George, London SE1.
Heard, John Michael, West Wickham.
Henderson, John Edwin, B.SC., Dagenham.
Heppenstall, Richard Douglas Beaumont, B.COM., Huddersfield.
Hesmondhalgh, John Stephen, B.COM., Leeds.
Hickson, Ian Stephen, Basel.
Hill, (Miss) Carol Patricia, Jersey.
Hill, Gerald Edmond, Birmingham.
Hill, Martin Victor, Stourbridge.
Holman, John William, Gravesend.
Holt, William James, Rochdale.
Hopwood, Stuart Ernest, Stoke-on-Trent.
Hotston, Michael John, Bognor Regis.
Hounsfield, Clive Richard, Halesowen.
Hubble, Barry Royston, Stourbridge.
Hunking, Arthur, B.SC., Bramhall.
Hyatt, Peter Robin, London N3.
Hyde, (Miss) Angela Mary, Enfield.
Hyman, Robert Stephen, London W1.

Ireland, John Alan, Wallasey.
Irving, Rodney James, Reading.
Irwin, David Elden, London SW14.

Jafri, Suhail, London W5.
James, Christopher Chesnaye, Old Heathfield.
Jardine, Christopher Douglas, London NW8.
Jenks, Graham Christopher, B.A., Birmingham.
John, Wynford Sutton, Cheam.
Johnson, Peter Medwell, Sunderland.

Kent, Peter, Coventry.
Kerner, Stuart Melvyn, London NW3.
Kernon, Barry Patrick Waring, London WC2.
Khokhar, Mohammad Irshad, London N8 9AS.
Kirby, Malcolm John, London SW16.
Koh, (Miss) Puay San, London N4 2LS.

Lamb, Keith, Middlesbrough.
Latif, Quazi Abdul, Stevenage.
Lavy, Jonathan Samuel, London N2.
Lawrence, Christopher John, Solihull.
Lewis, John Ernest, London N14.
Lewis, Paul Graham, Newport, Mon.
Leworthy, Richard Grenfell, Westerham.
Ling, Simon James, Ashtead.
Llewellyn, Colin Henry, Cardiff.
Lo, Ramon, Hong Kong.
Lofting, Peter, King's Lynn.
Long, Christopher Thomas, High Wycombe.
Loo, Khee-Kwong, London SW15.
Lucman, Abdul Haleem, London W2.
Lunt, George Nicholas David, Southport.
Lusty, Peter Alan, Edenbridge.
Lynn, Jonathan Patrick, Brighton.

McDonnell, Patrick Kevin, B.A., London N22.
McGowan, Barry Keith, Sutton Coldfield.
McIlwraith, Peter, Rochdale.
Margetson, Paul Arthur Charles, Blakeney.
Marks, Augustus Rhys, Ilkley.
Marshall, Brian Arthur, Salisbury.
Marshall, Philip Gale, Shrewsbury.
Martin, Robin Sweeting, B.SC., London W4.
Matthews, Roger Ian, Bristol.
Meakes, Anthony David, Ipswich.
Mellis, Keith Albert, London SE12.
Menmuir, Paul Richard, Wakefield.
Meredith, Jonathan Charles, Leamington Spa.
Merrick, David Claude, Haywards Heath.
Michelson, Allan Denis, Newcastle upon Tyne.
Middleton, Edward Bernard, Ware.
Midgley, Joe Anthony, Barnsley.
Miller, Nicholas Anthony, B.A., Chipstead.
Mitchell, Derek James, Mitcham.
Mitchell, John Gordon, Bordon.
Montgomery, David George, Montreal.
Moreland, David, B.ENG., Wigan.
Morgan, Bernard Thomas, Usk.
Morgan, William Nicholas, Beckenham.
Morris, Stephen Charles, Cobham.
Moser, Robin Allan Shedden, Betchworth.
Mott, Dennis Phillip, Peterborough.
Moulton, David William, Rugeley.
Muttitt, Paul, Halesworth.
Myers, Malcolm Alonzo Dudley, London EC2.

Narain, Percy Carl, London SW11.
Nessbert, Raymond Terence, Cardiff.
Newman, Christopher James, Bristol.
Newton, Ian Geoffrey, Kingston.
Nicholson, Roy Knollys Ellard, Chipstead.
Nutting, Peter William, London N5.

Oakley, Joseph Roger, B.SC., London SW4.
Officer, Michael, London N12.
Osobase, Sylvester Sunday, Cardiff.
Osun-Benjamin, Kayode, London SW12.
Owen, Roger George, Melksham.

Page, Gregory Paul Richard, Great Totham.
Panter, Richard Barry, Bedford.
Pavri, Zareer Noshir, London W5.
Peck, Robert Stephen, King's Lynn.
Pennington, Malcolm Read, Liverpool.
Phipps, (Miss) Maureen Penelope, Jersey.
Plummer, David, Sheffield.
Pochkhanawala, Sorab Noshir, Enfield.
Postlethwaite, David, Maidenhead.
Powley, Ian Walter, London SE12.
Prior, Timothy Alexander, Chislehurst.
Prior, Tony, London N3.
Pullan, David Michael, Bradford.

Ray-Jones, Philip Raymond, London NW6.
Reed, John Warren, St Albans.
Rees, Trevor Eirwyn, B.SC., Cardiff.
Rich, Nigel Mervyn Sutherland, London SE19.
Richards, Anthony John, Abermule.
Ridsdale, Geoffrey Peirson, London SW6.
Rist, Martin Jonathan, B.A., Wakefield.
Robinson, Colin Graham, Upminster.
Rollason, Michael John, Stourbridge.
Ronson, George Robertson, Bexleyheath.
Rosier, Kelvyn John, Alton.
Ross, Stewart, Bridgnorth.
Routley, (Mrs) Eleanor Mary, Brookwood.
Roxburgh, Douglas Selwyn, B.A., Stockton-on-Tees.
Rudge, Alan Raymond, Birmingham.

Sandwith, (Miss) Mary Elizabeth, Guernsey.
Schacter, Peter, London NW6. (Resident Abroad.)
Schofield, (Mrs) Gillian Maureen, Ossett.
Scott, James Brendan, Oldham.
Scurr, Stephen John, Woking.
Sealy, Nicholas John Elliot, London EC2.
Sephton, John, Woodford Green.
Serrao, David Michael, London W2 4BB.
Shah, Pravinchandra Kashalchand, Cardiff.
Sharp, John Philip, Burnley.
Sheen, Christopher Lucas, London SW19.
Sheldon, John Basil Robertson, B.A., Chippenham.
Sherman, Paul Roger, London E11.
Shipley, Anthony John, Walton.
Shirley, Roger Anthony, B.SC., Maidstone.
Simpson-Brass, David Munro Simpson, Barcelona.
Sinclair, Malcolm David, B.SC., Woodford Green.
Smith, Brian Stanley, London E17 4DT.
Smith, Hedley Lockhart, B.SC., Bath.
Smith, Jonathan Francis, Westerham.
Stamps, Barry Kenneth, Rotherham.

Starr, Donald John, B.A., Newbury.
Stebbings, Thomas Raymond, Sidcup.
Stewart, Robin Graham, London SW12.
Stringer, David John, Maidenhead.
Swainston, Stephen Arden, Cheltenham.
Swales, John William, Chippenham.
Swann, Alan Barry, Bedford.

Tan, Phee Hock, London W2.
Tan, Winston Cheow Kim, London N10.
Tavana, Joseph, B.SC., London SW5.
Taylor, Peter, B.A., London NW6.
Teare, Richard Maxwell, B.SC., London N6.
Tegg, Malcolm Frederick, Twyford.
Teo, Donald Cheng Tuan, London W2.
Thomas, John Richard Holt, B.SC., Ipswich.
Thompson, Gordon, Guildford.
Thorn, Maurice Leslie, London W5.
Thorpe, Peter, Nottingham.
Tizick, Robert, Frinton-on-Sea.
Todd, Michael Arthur, Wallasey.
Travis, Anthony William, Parbold.
Turner, Colin Trevor Pellatt, Bromley.

Uren, Richard Charles, B.A., London N8.

Van der Linden, Anthony Christiaan, B.A., London W13 8EA.
Vasey, George Andrew, Darlington.

Warren, Stephen John, M.A., London W1.
Watchorn, Richard Victor, Oakham.
Watkins, Desmond Ralph, Hillingdon.
Waxman, Stephen Anthony, Harrow.
Wells, Francis William, Fareham.
Wenham, David John, London E4.
Westerby, Roy Thomas, Nottingham.
Whitbread, David Alexander, Walsall.
White, John, Haslemere.
Wilcox, Graham Bernard, B.A., London SW20.
Wild, Adrian David, London SW15.
Wilkins, John Andrew, M.A., Swindon.
Willmott, Richard George Greville, B.A., Reading.
Wilson, Giles Norman, Manchester.
Woodrow, Phillip Andrew, Bradford.
Wride, David William, Bristol.
Wright, Charles Frederick, Bromley.

Yates, Richard, Sutton.
York, John Christopher, London SW1.
Young, Keith Alan, Chertsey.

Zaidi, Saiyed Hidayat Husain, London N14.

Fellowship

The Council granted applications from 21 associates to become fellows under clause 6 of the supplemental Royal Charter.

Members Commencing to Practise

The Council received notice that the following members had commenced to practise:

Aske, Brian Hope, F.C.A., *a*1935; R. Stewart & Co, 18 High Street, Chard, Somerset.
Atkinson, Michael Stewart, A.C.A., *a*1970; C. B. Richmond & Co, 10 Aytoun Street, Manchester M1 3DW.
Baker, Anthony Reginald Alfred, A.C.A., *a*1964; Weller Messenger & Kirkman, 4 and 15 King Edward Street, Oxford OX1 4HL.

Benson, Peter Macleod, M.A., A.C.A., *a*1965; Cooper Brothers & Co, Abacus House, Gutter Lane, Cheapside, London EC2V 8AH.
Bishop, Martyn John, A.C.A., *a*1970; Astley, Egan & Co, 10 Wellington Street, St John's, Blackburn, Lancs.
Bouchier, William Brian, F.C.A., *aS*1957; Harmood Banner & Co, Arkwright House, Parsonage Gardens, Manchester M3 2LR.
Bunting, David Arthur, A.C.A., *a*1964; 5 Orchard Close, Wheatley, Oxford OX9 1UL.

Carter, John Anthony, A.C.A., *a*1965; Raymond Carter & Co, 7 Downsway, Sanderstead, Surrey CR2 0JB.
Champness, Alexander Hartford, F.C.A., *a*1934; 2 Bedford Park Villas, North Hill, Plymouth, Devon.
Cook, Michael Stephen, A.C.A., *a*1963; Burgis & Bullock, 11 & 13 Waterloo Place, Leamington Spa, Warwickshire.
Cross, Frank William, F.C.A., *a*1960; Woodfield, Hadleigh Heath, Hadleigh, Ipswich.
Dowling, Philip Peter, A.C.A., *a*1968; Landin, Wilcock & Co, Queen Street Chambers, 68 Queen Street, Sheffield S1 1WR.

Edwards, Melvyn Morris, A.C.A., *a*1964; Maurice Thompson & Co, 159–163 Queen Victoria Street, London EC4V 4EE.
Epstein, Anthony John, A.C.A., *a*1962; Leonard Bloch & Co, 25 Manchester Square, London W1M 6HD.

Foster, Geoffrey William, F.C.A., *a*1959; Amherst & Shapland, 4 Irnham Road, Minehead, Somerset.

Gofton, Anthony William, A.C.A., *a*1968; Mellors, Basden & Co, Portland House, 73 Basinghall Street, London EC2V 5AS.
Goldsmith, David Colin, F.C.A., *a*1960; Cooper Brothers & Co, Abacus House, Gutter Lane, Cheapside, London EC2V 8AH.
Graham, David John, A.C.A., *a*1966; Smith, Forshaw & Co, 66 Bank Parade, Burnley, Lancs.
Grugeon, David Hilton, A.C.A., *a*1967; Reynolds & Lane, 6 Elwick Road, Ashford, Kent.

Haines, John, A.C.A., *a*1964; John A. Flowers & Co, Quern House, 68 Park Street, Hull, Yorkshire HU2 8TA.
Hindle, Christopher William, A.C.A., *a*1969; 4 Templar Road, Kettering, Northants.
Hogben, Michael Anthony, M.A., A.C.A., *a*1966; *Fuller Jenks Beecroft & Co, – an unlimited company, 55–61 Moorgate, London EC2R 6BJ.
Holdstock, George William, A.C.A., *a*1963; McCabe & Ford, 5 Dane John, Canterbury, Kent.
Howell, Cornelius John, F.C.A., *aS*1939; 5 Roebuck Road, Clonskeagh, Dublin 14.

Jackson, Peter Samuel Fenwick, A.C.A., *a*1962; Coppock, Hargreaves & Co, Winchester House, 58 Warwick Road, Carlisle CA1 1DR.
James, Gerald Wallis, A.C.A., *a*1964; 22 Beech Gardens, Crawley Down, Crawley, Sussex.
Jullienne, Jean France Mario, A.C.A., *a*1970; Cerne House, Chaussee, Port Louis, Mauritius.

Kilshaw, Andrew Donald, A.C.A., *a*1969; 81 Lunar Drive, Netherton, Bootle 10, Lancs.
Kinsey, Bernard Cyril, F.C.A., *aS*1948; Glyn Garth, Nursery Lane, Stockton Brook, Stoke-on-Trent, Staffs.

Lane, Richard Ernest, A.C.A., *a*1968; Crane, Houghton & Crane, 29 Queen Anne Street, London W1M 9FB.
Law, Leslie William, B.COM., F.C.A., *a*1956; †Deloitte & Co, 128 Queen Victoria Street, London EC4 4BS.
Leaf, Michael John, A.C.A., *a*1969; M. J. Leaf & Co, 35 Okehampton Close, Friern Park, North Finchley, London N12.
Leigh, Timothy Roy, A.C.A., *a*1963; Leigh & Co, 9 Cecil Square, Margate, Kent.
Leyland, Bernard John, A.C.A., *a*1969; J. Wild & Co, 70–76 Blackburn Street, Radcliffe, Manchester M26 9TS.

Marples, Rodney Brian, B.SC., A.C.A., *a*1970; 116 Riddings Road, Timperley, Cheshire.
Mattock, Hector James, A.C.A., *a*1956; *Yarwood Vane & Co, GPO Box 243, Sydney, NSW 2001, Australia.
Maxwell, David, F.C.A., *a*1960; Cooper Brothers & Co, Lyndon House, 62 Hagley Road, Edgbaston, Birmingham B16 8PN.

Mickler, Peter Allan, B.A., A.C.A., *a*1969; Forrestal & Co, 1 Newgate Street, Newcastle upon Tyne NE1 5RP.
Miller, Richard James, A.C.A., *a*1970; Appleby & Co, 9 Southampton Row, London WC1.
Mitchell, Roderic Wallace, A.C.A., *a*1965; *Edgar Wallett & Co, 3 Adventure Place, Hanley, Stoke-on-Trent ST1 3AG.
Mockett, Hugh Norman, A.C.A., *a*1970; Percy Gore & Co, 39 Hawley Square, Margate, Kent.
Moore, David Rodney, A.C.A., *a*1969; Lister Gilleard & Co, 4 New Street, Huddersfield HD1 2AR.
Morris, Alan David, A.C.A., *a*1966; Hereward, Scott, Davies & Co, Hillside House, 2–6 Friern Park, London N12 9BY.
Murtland, John Campbell, A.C.A., *a*1969; Thomas Coombs & Son, Oxford Chambers, Oxford Place, Leeds LS1 3AT.

Newberry, Alan Edward, A.C.A., *a*1968; Gill & Coyne, 5 Royal Terrace, Weymouth, Dorset.

O'Reilly, Hugh John Joseph, F.C.A., *aS*1947; †Deloitte & Co, 128 Queen Victoria Street, London EC4 4BS.
Olivo, Joseph Edward, A.C.A., *a*1965; Bird & Partners, Ridgway House, 41–42 King William Street, London EC4.
Owen, Malcolm Vernon, A.C.A., *a*1970; 45 Elmdale Road, Bramford Estate, Coseley, Bilston, Staffs.

Pater, John Clayton, F.C.A., *a*1960; Fletcher & Partners, Crown Chambers, Bridge Street, Salisbury, Wilts.
Penny, Keith, A.C.A., *a*1969; Highfield, Prichard & Mumby, Corn Exchange, Fenwick Street, Liverpool L2 7QS.
Pepper, David William, A.C.A., *a*1970; *Wardale & Co, Foresters Chambers, 24 Park Square West, Leeds LS1 2PR.
Peters, Frederick, A.C.A., *a*1966; Rainbow Straughan & Elliott, 34 West Sunniside, Sunderland, Co. Durham.
Pickard, Raymond Stuart, A.C.A., *a*1969; Reynolds & Lane, 6 Elwick Road, Ashford, Kent.
Pollock, Andrew John, A.C.A., *a*1966; Stafford Rudkin & Co, 12 Bolton Street, Piccadilly, London W1Y 7PA.

Rabin, Howard Sidney Michael, A.C.A., *a*1970; *M. Rabin & Co, 345 Goswell Road, London EC1V 7JS.
Rastall, Walter Guy, B.A., A.C.A., *a*1966; Keep House, Castle View, Tutshill, Chepstow, Mon.
Ratledge, Martin Richard, F.C.A., *a*1959; Cooper Brothers & Co, Lyndon House, 62 Hagley Road, Birmingham B16 8PN.
Reynolds, Patrick Ernest, A.C.A., *a*1968; Peat, Marwick, Cassleton Elliott & Co, PO Box 242, Accra, Ghana.
Richardson, John d'Arcy, B.A., A.C.A., *a*1970; 9 Lancaster Road, Bedgrove, Aylesbury, Bucks.
Robinson, Kenneth Anthony Marlow, A.C.A., *a*1962; *Peat, Marwick, Mitchell & Co, PO Box 123, Nassau, Bahamas.
Round, Michael, A.C.A., *a*1970; 7 Abbotts Mead, Craig Road, Ham, Richmond, Surrey.

Shutt, David Trevor, A.C.A., *a*1969; Bousfield Waite & Co, Prescott Chambers, 28 Prescott Street, Halifax, Yorkshire.
Smails, William Peter, F.C.A., *a*1956; Griffin Stone, Moscrop & Co, 21 Manchester Square, London W1M 5AP.
Smith, David Charles, A.C.A., *a*1966; Griffin Stone, Moscrop & Co, 21 Manchester Square, London W1M 5AP.
Smith, Terence Albert, A.C.A., *a*1965; 32 Milton Drive, Newport Pagnell, Bucks.
South, Terence Robert, A.C.A., *a*1969; T. R. South & Co, 7 Pinewood Court, 27 Montague Road, London SW19.
Spencer, Terence John, A.C.A., *a*1966; Johnson, Murkett & Hurst, Rawdon House, Rawdon Terrace, Ashby-de-la-Zouch, Leicester LE6 5GN.

Steinberg, Allan Melvyn, A.C.A., *a*1970; 162 Headley Drive, Gants Hill, Ilford, Essex.
Stephens, William John, A.C.A., *a*1966; Richard Farmer & Co, PO Box 134, Stansfield House, Moffat Road, Ndola, Zambia.
Swinnerton, Peter Richard, A.C.A., *a*1961; Barber Swinnerton & Co, 24 Dulverton Road, Selsdon, South Croydon, Surrey CR2 8PG.

Taylor, Brian John, A.C.A., *a*1966; Satterthwaite Brooks & Pomfret, Oriel House, 2–6 Oriel Road, Bootle, Lancs L20 7EP.
Taylor, Lee Alexander, A.C.A., *a*1970; 85 High Street, Welling, Kent.
Threlfall, John Peter, F.C.A., *a*1959; Cooper Brothers & Co, Abacus House, Gutter Lane, Cheapside, London EC2V 8AH.
Timms, Peter John, A.C.A., *a*1968; †Smallfield, Rawlins & Co, Candlewick House, 116–126 Cannon Street, London EC4N 6BA.
Tonkin, Alan, T.D., F.C.A., *aS*1954; Peat, Marwick, Mitchell & Co, Pearl Assurance House, 43 Princess Way, Swansea SA1 5HH.

Upright, Donovan Garner, B.A.(COM.), A.C.A., *a*1967; J. Paterson Brodie & Son, Moor House, Moorland Road, Burslem, Stoke-on-Trent.

Webster, Robert James, A.C.A., *a*1969; R. J. Webster & Co, 165 Whitton Dene, Hounslow, Middlesex.
Whittlesea, Mrs Ann Rosemary, A.C.A., *a*1963; 46 Eddington Lane, Herne Bay, Kent.
Wickham, Martin Borrett Austin, A.C.A., *a*1966; *Pannell Fitzpatrick & Co, PO Box 37, The Demerara Life Buildings, Georgetown, Guyana.
Wight, Robin Alexander Fairbairn, M.A., A.C.A., *a*1965; Cooper Brothers & Co, Westminster House, Park Row, Leeds LS1 5BQ.
Wilson, Martyn Alexander, A.C.A., *a*1970; Todd Silvey & Co, Barclays Bank Buildings, 12A Piccadilly, Manchester M1 3AT.
Wilson, Stuart Victor, A.C.A., *a*1969; Holden, Howard & Co, 159–163 Queen Victoria Street, London EC4 4EE.
Winter, Peter William, A.C.A., *a*1961; Sully & Co, Oxford Chambers, 55B Oxford Street, Weston-super-Mare, Somerset.
Wood, Gordon James, A.C.A., *a*1966; Morris, Crocker & Co, 102 Victoria Road North, Portsmouth PO5 1QF.

Young, Alan Godfrey, F.C.A., *a*1959; Cooper Brothers & Co, 14 Cross Burgess Street, Sheffield S1 1QA.

Readmission to Membership

Subject to payment of the amounts required by the Council, one former member of the Institute was readmitted to membership under clause 23 of the supplemental Royal Charter. One application under clause 23 was refused.

It was reported to the Council that the following readmission, made at the Council meeting on February 3rd, 1971, subject to payment of the amounts required, had become effective:

Mr Conrad Rutherford Browne, F.C.A., 153 Stanwell Road, Penarth, Glamorgan CF6 2LN.

Resignations

The Council accepted the resignations from membership of the Institute of:

Badman, Enoch Albert, F.C.A., *a*1929; 60 Canford Cliffs Road, Parkstone, Poole, Dorset.

Bennett, Robin Pearson, F.C.A., *a*1936; 7 Wimbish Walk, RAF Debden, Saffron Walden, Essex.
Bisiker, Thomas Douglas, F.C.A., *a*1926; 23 Greensleeves Avenue, Broadstone, Dorset. (Retired.)
Brooks, Walter, F.C.A., *aS*1951; County Treasurer's Department, Eastgate Street, Stafford.

Caldicott, Hubert William, F.C.A., *aS*1946; 6 Marlborough Road, Crosby, Liverpool L23 3DD.
Eccleston, Rupert Alfred, F.C.A., *aS*1924; 4 Maidstone Road, Heaton Mersey, Stockport, Cheshire.

Farrand, John, B.COM., F.C.A., *aS*1946; 30 St Petersburgh Place, London W2 4LD.

Gardiner, Gerald, F.C.A., *aS*1947; 'Westbridge', Nunwell Street, Sandown, Isle of Wight.
Grey, Philip Ronald, F.C.A., *a*1939; 'Coridon', Steppeshill, Langton Matravers, Swanage, Dorset BH19 3ET.

Hill, John Maxwell, F.C.A., *aS*1930; 120 Birches Barn Road, Wolverhampton, Staffs.

Ingram, Ivor Laing, F.C.A., *a*1935; Marlowe, Vyner Road South, Birkenhead.

Jones, Herbert Alan, F.C.A., *a*1936; 4 Earl's Court Gardens, London SW5.

Kerr-Smiley, Cyril Hugh, T.D., B.A., F.C.A., *a*1933; Gables Farm, Rendham, Saxmundham, Suffolk. (Retired.)

Laidler, George Sculpher, B.COM., F.C.A., *a*1929; 'Cornerways', Cade Hill Road, Stocksfield, Northumberland.
Luffe, Herbert John, F.C.A., *aS*1910; 11 Elmswood Road, Hilsea, Portsmouth. (Retired.)

Morton, Thomas Frank, F.S.A.A., *aS*1925; 'Rose Garth', 29 Hawkstone Avenue, Guiseley, Leeds. (Retired.)

Nelson, The Hon. George Joseph Horatio, F.C.A., *a*1931; 9 Pwlldu Lane, Bishopston, Swansea, Glamorgan SA3 3HA.

Poppleton, Howard Knight, F.C.A., *a*1920; 'Hen Dy', Roe Wen, Conway, Caernarvonshire.

Riley, Irvin Wilson, F.C.A., *aS*1926; 94 Braithwaite Road, Keighley, Yorkshire. (Retired.)
Roach, Bremer Henry, F.C.A., *a*1920; The Spanish House, Beacon Road, Seaford, Sussex.
Roberts, Ernest Geoffrey Snowden, F.C.A., *aS*1941; 136 Hillcroft Crescent, Oxley, Watford WD1 4NZ.

Salisbury, John Richard Clague, F.C.A., *a*1933; 80 Southam Road, Hall Green, Birmingham 28.
Scarborough, John, F.C.A., *a*1925; 124 Carlton Towers, Somsten Road, Durban, South Africa. (Retired.)
Sen, Suresh Chandra, M.A., LL.B., F.C.A., *a*1926; 150 Jodhpur Park, Calcutta 31, India. (Retired.)
Shutte, Reginald Arthur Neale, F.C.A., *a*1928; South Hartin, near Petersfield, Hants. (Retired.)
Smith, John, F.C.A., *a*1954; 37 Penshurst Road, Ipswich, Suffolk.
Sutton, Charles Murray, F.C.A., *a*1934; 'Cotlands', Cowfold, Sussex.

Thompson, Ernest Alfred, B.A., F.C.A., *a*1941; 20 Dudbury Road, Hazel Grove, Stockport, Cheshire SK7 6EZ.

Wood, Thomas St John, F.C.A., *a*1927; Barlow, Davies & Wood, One California Street, San Francisco 94111, USA.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Adams, Frederick, F.C.A., London.
Alvey, Walter Eric, F.C.A., Ilkley, Yorks.
Andrews, Paul Perowne, F.C.A., Wymondham, Norfolk.
Andrews, William Norman, F.C.A., London.
Austin, Cyril, F.C.A., Hemel Hempstead, Herts.

Barnes, Gilbert Leslie, F.C.A., Cheshunt, Herts.
Bennett, William Barron, F.C.A., Tweedmouth, Northumberland.

Cawthorn, George Frederick, F.C.A., Stockton-on-Tees.
Clapham, Fred Robinson, F.C.A., Seacroft, Leeds.
Collier, William, F.S.A.A., Johannesburg, South Africa.

Davies, David Elfyn, F.C.A., Tewin Wood, Herts.
Davies, Harold Vaughan, M.C., F.C.A., Bournemouth, Hants.
Dewhirst, William Leonard, B.E.M., F.C.A., Ilkley, Yorks.
Donaldson, John, F.C.A., Preston, Lancs.

Gagg, Cyril John, F.C.A., Bath, Somerset.

Hand, William Le'Resche, F.C.A., Birmingham.
Hardcastle, Frederick Ernest William, F.C.A., Ashtead, Surrey.
Hicks, Idris, B.COM., F.C.A., Sheffield.

Jeffree, John Leslie, M.B.E., F.C.A., London.
Jones, Neville Walker, F.C.A., Birkenhead, Cheshire.

Kingham, Frank Anderson, F.C.A., New Malden, Surrey.
Knight, Frank William, F.C.A., Leicester.

Loveridge, Albert, F.C.A., Southport, Lancs.

Metcalf, Charles Alfred, F.S.A.A., Walton-on-Thames, Surrey.
Moore, Michael, F.C.A., London.

Newey, Frederick Gordon, F.C.A., Birmingham.

O'Sullivan, Niall John, F.C.A., London.

Piper, Walter, F.C.A., London.
Primmer, Gilbert John, F.C.A., Sale, Cheshire.

Rice, Robert Theodore Cracroft, F.C.A., Guildford, Surrey.
Robson, Frederick Josiah, F.C.A., Manchester.
Roskin-Levy, Isaac, M.C., F.C.A., Brighton, Sussex.
Rowell, John Rutherford, F.C.A., Newcastle upon Tyne.

Sacker, Norman, F.C.A., Christchurch, Hants.
Schwar, Frank, F.C.A., London.
Scopes, Eric Alfred, F.C.A., St Mawes, Cornwall.
Sebright, Claude Neville Clinton, M.B.E., F.C.A., Clacton-on-Sea, Essex.
Sen, Dines Charan, F.C.A., Calcutta, India.
Smith, Sidney, F.C.A., Bramhall, Cheshire.
Smith, William Alfred John, F.C.A., London.
Stone, Joseph Edmund, C.B.E., M.C., F.C.A., Hove.

Taylor, Philip, T.D., F.C.A., Harrow, Middlesex.
Thoseby, Arthur Bertram, F.C.A., Bingley, Yorks.

Waller, Ronald Arthur, F.C.A., Lowestoft, Suffolk.
Wayman, James Fawcitt, F.C.A., Coulsdon, Surrey.
White, Edmund Charles, F.C.A., New Milton, Hants.
Willis, Albert George, F.C.A., London.
Winston, John Patrick, F.C.A., Trowbridge, Wilts.
Wolstenholme, Francis Donald, F.C.A., London.
Wright, Ernest, F.C.A., Whitchurch, Cardiff.

STUDENT ROUNDABOUT

Training Changes for Changing Times

American Professor's Views on Accounting Education

OF interest to all students are the observations on training for the accountancy profession in America made by Professor Bernard B. Goodman, M.B.A., C.P.A., Chairman, Accounting Department, University of Hartford, Connecticut, when interviewed by 'Roundabout' recently during a visit to the United Kingdom. Professor Goodman, who was over here to study UK accountancy developments and student training, had meetings with, among others, members of the executive of ACASS, Mr C. Evan-Jones, M.B.E., Secretary of the Institute, and Mr W. M. Allen, T.D., B.A., LL.B., Secretary of the Institute's Education Committee. In addition, he was present at the London CASS Cambridge Course (*The Accountant*, April 8th). We refer below to some of the topics discussed.

To set the general background to education and training for the accountancy profession in the United States, would you briefly outline the method of entry into the profession?

In order to enter the American accountancy profession each State sets regulations or requirements. Entry normally consists of a certain amount of academic education and a certain amount of internship or on-the-job training. Generally speaking, in the 50 States, the requirement is at least a four-year college education – a degree education which will take in certain required subjects. There is no other method of entry to the profession except through university.

Whilst one appreciates that accountancy students in the USA, by attending a university course, derive considerable benefit from the academic side, what practical work do they do towards the end of their course?

Some of the undergraduate programmes, as well as the graduate programmes, have as part of the course what is called internship. That is, the student is in the classroom for a certain number of months towards the latter part of his programme and then will normally join an accounting firm for about a month to three months in order to get some understanding of what is ahead of him. This we call his internship programme.

At Hartford, we don't have a formal internship programme. What we have done instead is to give the student an idea of what the outside world is like by taking class groups out to visit companies, and even some of the government bodies, so that students get an opportunity to see what happens in these various enterprises.

Courses and examinations

How many examinations do students have to sit before qualifying? Perhaps, too, you would state the principal subjects in the examinations.

Let me explain first the courses and then I'll discuss the examinations. The average semester is 15 weeks and if a student attends class three times a week we call that a tri-hour course which means that during 15 weeks he will attend for 45 hours. We have two semesters a year.

Now if the student wants to read accounting as you say or, as we say, major in accounting, during his freshman year he will take what we call principles of accounting and will learn about accounting concepts.

This is important because even if we feel that the student is going to be a management major, an economics major, a public administration major or a marketing major, accounting has an importance to him as the basic fundamental information system. Also, by using this technique, we get many students interested in accounting. If we were to bear down with the debit/credit approach and the worksheet approach, the student would to a great extent become bored and we would not recruit as many as we would want to into accounting fields. In other words, it is a way of getting students interested in the profession.

At the end of the first year the student then must officially designate what his major will be. Our numbers have been increasing every year since we instituted this programme three years ago. Although we are a small university, we generally run 22 majors and hope to be dealing with 46 majors in three years' time.

In the second year, the student takes theory – he is now an accounting major and from our standpoint his professional preparation is beginning. He takes theory in both the first and second semester for three hours and we consider this course, this one-year programme, the most essential part of his training.

In the third year he is now a junior, studying in the first semester three hours of cost accounting and three hours of advanced problems which deal with mergers, consolidations and other special areas of that nature. In the second semester of his junior year he also takes three hours of cost accounting – the second part – and three hours of EDP. In the last year, as a senior, he takes three hours of taxes in the first semester plus three hours of auditing,

Professor Bernard Goodman, M.B.A., C.P.A., Chairman of the Accounting Department at the University of Hartford, is also adviser to the Society of Accounting Students at Hartford. In this capacity he views the possibility of an exchange arrangement between accountancy students in the US and UK as an idea to be welcomed. He believes this would be of great benefit to students in both countries and is hopeful that a suitable scheme can be organized – perhaps by ACASS – and started at an early date.

and in the second semester he takes three hours of taxes again.

The first semester of taxes covers concepts and the law, and the second semester is a case study approach to all the major issues that have come up. It is done in an unstructured style so that students almost feel that they are out in the business world of public accounting.

So that's the curriculum and I should add that, in addition, the student is also taking 60 hours of arts and science subjects – sociology, philosophy, English literature, composition and public speaking.

To enter the American accountancy profession is expensive. Can you elaborate on this and are State grants available?

We do have State schools which, I suppose, are somewhat like your universities but they are very large institutions now because America has adopted the programme of education for all and as a result some of our State universities have as many as 35,000 students. Even in accounting there can be as many as 300 in a class.

The student can go to that institution at a rather reasonable rate and if he were going to live on campus it would cost him in the area of about $2,000 a year, which means that in four years it would cost him $8,000. But in our institution, which is a private institution such as Yale or Harvard are, we have a smaller student body. The total student body in the whole university is 3,500 and in the College of Business and Public Administration it is 570 students. So the average size class is 20 students. That education costs our students $4,000 a year or $16,000 for four years' education.

Is it more difficult to enter these colleges or universities though one might have the money?

It is a little more difficult because first you need the money and secondly if you do have the money then you hope you are admitted. We do have many scholarships which we offer to our students. These are moneys that are made available through various companies. We have many scholarships from accountancy firms who have been extremely good to us in this respect. They not only give me scholarships for my students but they give me money for my faculties, so that my faculties can do many educational activities which we normally wouldn't be able to include in our budget.

On qualifying, what sort of salary can the young accountant expect?

My graduates who leave the four-year programme are not qualified as yet. They are leaving and going to go to work for a public accounting firm and sit for the examination immediately, but they cannot qualify until they have completed three years of practical experience at a public accounting firm.

They will start from college at $10,500 a year with the firm. When they qualify and receive their designations that amount will normally go up by at least a $1,000 a year to about $12,000 a year. But, again, there is a stronger tendency now to hire not the four-year man but the five-year man.

Is it customary for the newly qualified accountant to specialize and if so in what subjects?

We train specialists or, as we say, comprehensivists. That is, they take all the subjects I mentioned earlier and when they leave college they have knowledge of these various areas. When they join the firm they will normally go into auditing and then after about a year's work they may select a special area such as taxes or management consulting services where they may be involved as a computer specialist or operations research specialist. We do not train a specialist in college, unless he wants to go ahead and take a fifth year of work and then he may begin to specialize in some areas.

Industry or practice?

In general, is there a tendency for newly qualified accountants to enter industry rather than go into practice?

The general tendency is for the newly qualified accountant – we really shouldn't call him the newly qualified accountant, let's say the newly graduated accountant, the term we use – to seek public accountancy because he needs at least two years of public accountancy in addition to his education to sit for the examination.

At Hartford we attempt to watch the progress of a student through his advisor and by the time he reaches graduation we've pretty well told him whether he should proceed either into public accountancy or industry.

We know that in America the State universities hold their own degree courses in accountancy, but can you say what action the American Institute of Certified Public Accountants has taken to achieve examination uniformity throughout the country?

The American Institute administers the examination in the present 50 States as well as the possessions, of which I think there are three. All take the same examinations and these are held twice a year in May and November for three days. There are four parts: theory, commercial law, auditing and problems. He takes those four areas over a period of three days and this is a uniform examination.

The States have the authority and it's only in the past ten years that all 50 States have been taking one uniform examination. The American Institute also grades the examinations, sets out the grade and then sends it to the various States for them to decide. They have complete authority over the examination. The American Institute is the examining body, although there was a time when some States were setting their own examinations.

The objective and the goal of the Institute is that the accountant will no longer have to say that he is a CPA of New York or a CPA of Massachusetts: he will simply say I am a CPA.

Over here, young accountants quite often take an overseas appointment. Is this the case among young American accountants?

More and more of our students talk of their desire to work overseas on graduation, but language limitations have held them back and in many instances our students haven't been certain as to how to approach this. We have recommended that if they are interested in overseas assignments, they join a national firm or an international firm. After they have qualified and completed a sufficient number of years training they ask for an assignment, and they have been getting it.

Do you envisage any major changes in the subjects to be studied by students in America in the light of new business techniques?

As I said earlier, marketing is already in the syllabus along with management and economics, but in the EDP area we have built up great interest and expanded the curriculum so that the accountant today takes courses in programming. He does this in his freshman year. His course is in the concepts of hardware and software; he takes courses in EDP and auditing, and systems or management information which we consider very important. In addition to that there has been a strong move towards including in the curriculum such courses as operations research and other courses using mathematics to solve the businessman's problems.

However, with the extension of four-year programmes the student now has to consider these courses as part of a fifth-year programme so that he ends up with a master's degree. The American Institute has supported this programme, its Education Committee has put it out without any question.

In the short time you've been here, what are your impressions of the training methods for students in the UK and what changes do you think would be of benefit? You were at Cambridge for the London Students' Cambridge Course,

which in many ways was elementary, but that apart, what were your impressions of the Cambridge course?

Let me say on the Cambridge course, you can't set Cambridge out as an educational programme because at the very outset you have all the inputs which make the programme invalid. You had students there who had degrees and students who did not have degrees, and you had students who in some instances had just left school. And you had students there with three months' experience and up to two years of experience, so it's very difficult to come across with a programme suited to all their respective needs.

Again, I think the course was exciting and interesting because it brought together 110 students who got to see each other and began to learn that they are all part of one profession. They could share their ideas about the profession and they could see what progress others had made who had been in it longer than they had; and this is a very good point.

Basically, with regard to the overall training which was the question at the outset, the articled clerk arrangement is an arrangement that stems historically from the days of the apprentice/master relationship which was prior to the industrial revolution, and it goes back to feudal times. It is unquestionably obsolete today, and I think it is one of the major arrangements that is in my estimation holding back the United Kingdom profession.

Along with that, of course, goes a change in view of what educational requirements are necessary to make a professional accountant. Currently you are training an auditor, and student after student with whom I spoke indicated great lack of interest in what he was doing and said he was purely one who was being taught how to make tick marks and asked how could he proceed into accounting without having any strong theoretical background and classroom practice background, doing problem cases and so on.

So I say once you've removed the articled clerk arrangement then, of course, the correspondence course should go, the nine-month technical programme should go and the profession must begin to sponsor or help get off the ground the accounting programme in the university or college. I hope it will not be an accounting programme only, but an accounting programme which includes the arts and sciences and other business courses in order to develop a well-rounded, thinking individual.

In particular, the profession in the States is helping business move ahead at a much more rapid rate and accomplishing so much more than the accounting profession here. I truly respect their feelings for tradition, but they must begin to remember that that was years ago. They must consider today's times and they must turn to the students who have now come forward, and you have to admit they have come forward with some splendid ideas for change.

Like ACASS?

Like ACASS. I support the views of ACASS, I also realize that, like many other student movements, if they are left to themselves they may well blunder and cause a great deal of unnecessary commotion. We know that is what has happened in the States, where students who are sociology majors or philosophy majors have been let loose and have tried to push ahead, and with no one to work with they end up blowing up buildings and taking over buildings. That's nonsense, and our accounting students don't do this.

If the principals will begin to hear out the students and work with the students in a partnership arrangement, I think they will find themselves before long with a much more qualified staff member. The principal is still the principal, I don't think he has to become an equal partner with the student, but should work on a partnership arrangement towards a common objective.

As a final question, do you think you can take back to the States anything which will be of benefit to American teaching?

I can't really take back any teaching techniques on media that I've seen here which I think will be valuable to me, but there's much we can learn from what is happening here, and I did admire the young people's common sense. I noticed that they had something which we don't have to a great degree: our students, perhaps for many reasons which would be too long for this interview, have not got the overall understanding – the common sense – yours have. This may be due to your history and your closeness to the Continent and involvement with foreign people and with foreign ideas. Whereas in America, they are very isolated and so as a result tend to be somewhat provincial.

Finally, may I say that I would love to see a compromise position because I think on one side we're going too fast and furious, and on the other side, if we can blend some of that in with the English charm, I think the world would really benefit. I do believe in international accounting because we have a small world – a very small world – and there is unquestionably a constant relationship between our two countries.

STUDENTS AT AWARDS PRESENTATION CEREMONY

Officers of ACASS and of the London Students' Society were among the guests who attended the presentation of *The Accountant* Annual Awards at Merchant Taylors' Hall, London, last Thursday. *Left to right:* Mr Stephen Parry, B.A., A.C.A., Chairman of the London Students' Society and Treasurer of ACASS; Miss Sheilagh Findlay, A.C.A., A.T.I.I., Assistant Treasurer, London Students' Society; Mr Tony Cross, B.A., A.C.A., President of ACASS, and Mr John Underhill, B.A., Vice-Chairman, London Students.

Notes and Notices

PROFESSIONAL NOTICES

The following firms announce that they have jointly formed a specialized practice for the provision of certain services: BURKE COVINGTON & NASH, COLE, DICKIN & HILLS, DAVIES BROS & CO, GRESHAM BROAD & CO, MACNAIR, MASON, EVANS & CO, WAISSEN WILSON, and WRIGHT, STEVENS & LLOYD. The new practice, known as FLOYD, NASH & CO commenced on March 1st, 1971, at 456 Salisbury House, London Wall, London EC2M 5UT, under the management of Mr RICHARD E. FLOYD, A.C.A.

BURNE PHILLIPS HARTLEY TURNER, Chartered Accountants, of Manchester, announce that Mr GRAHAM STUART BRAMALL, B.A.(ECON.), A.C.A., became a partner in the firm on May 1st, 1971.

GARNETT, CREWDSON & CO, Chartered Accountants, announce that they have arranged an amalgamation of their practice with that of SPICER AND PEGLER, London, with effect from May 1st, 1971. The amalgamated firm will continue to practise from 12 Booth Street, Manchester, under the names of both firms and from St Mary Axe House, London, under the name of SPICER AND PEGLER. The representation with SPICER AND PEGLER'S associated firms in the United Kingdom and overseas will continue as hitherto. Mr HARRY S. STAFFORD, F.C.A., senior partner of GARNETT, CREWDSON & CO, retired from the practice on April 30th, 1971, but will be available in a consultative capacity. The remaining partners of both firms will continue as partners in the amalgamated firm. Mr R. I. BEARD, B.A., F.C.A., Mr T. J. KENDALL, F.C.A., Mr H. BRIERLEY, F.C.A., and Mr C. J. WHEATCROFT, A.C.A., all of whom have been associated with the firms for many years, have been admitted into partnership with effect from May 1st, 1971.

LEECH PEIRSON EVANS & CO, Chartered Accountants, of Coventry and London, announce that Mr ANTHONY WILLIAMS PARSONS, F.C.A., has been admitted as a partner with effect from May 1st, 1971.

J. H. LORD & CO, Chartered Accountants, of Bacup, announce with deep regret that Mr ARNOLD R. COLLINGE, F.C.A., who has been a partner in the firm since 1942, died suddenly on Friday, April 30th.

MEREDITH, GREEN & CO, Chartered Accountants, regret to have to announce the death of one of their partners, Mr STANLEY SCHIFF, M.A., F.C.A., on May 9th, 1971.

MOORE, STEPHENS & CO, Chartered Accountants, of Bucklersbury House, Bucklersbury, London EC4, announce the retirement of Mr JAMES H. WILSON, F.C.A., from the partnership on April 30th, 1971, after over 26 years with the firm. Mr ROBERT ALEXANDER BATES, A.C.A., great-nephew of the late Mr JOHN R. STEPHENS, is being admitted into partnership as from May 1st, 1971.

ROSENTHAL, REFFIN & WINTER announce that Mr J. KENNETH MOLD, F.C.A., has been admitted to the partnership and will be available at the Leicester office. The name of the firm will remain unchanged.

SHIPLEY, BLACKBURN, SUTTON & CO, Chartered Accountants, of 52/53 Jermyn Street, London SW1, announce that Mr EDWARD MORGAN OLIVER, A.C.A., was admitted into partnership on May 1st, 1971.

APPOINTMENTS

Mr Edward D. Coree, A.C.W.A., has been appointed managing director designate of Youghal Carpets and Youghal Carpets (Sales) Ltd. He has been financial controller and a director of the company since January 1970.

Mr C. S. M. Cowtan, C.A., assistant financial adviser to the Electricity Council, who has acted as a consultant to Cedar Holdings Ltd, has now been appointed a director of Cedar Holdings.

Mr Steven M. Fraser, C.A., has been appointed joint secretary of FS Assurance.

Mr C. J. Coole, A.C.A., has become secretary of the Dale Group of Companies.

Mr C. J. Coole.

Mr A. R. Knight.

Mr A. R. Knight, F.C.A., A.C.W.A., chief accountant of Mardon, Son & Hall, has been appointed to the board of the company as financial director.

Mr K. J. Linford, A.C.W.A., has been appointed pension funds manager of The Plessey Company. Mr Linford joined the company in 1961 as financial accountant of Plessey International and has been assistant pension funds manager since January last year.

Mr G. D. Morris, F.C.A., has been appointed chief accountant of Rediffusion in succession to Mr F. G. Cox, F.C.A., F.C.I.S., who has retired.

Mr Eric Sayers, F.C.A., has been appointed deputy chairman of Duport Ltd. He will continue as managing director of the group's recently announced divisional organizational structure.

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ESTATE DUTY

Annuities to Trustees

The Board of Inland Revenue have had under consideration the estate duty position on the death of a professional man who is a trustee and is entitled, under the terms of the trust instrument, to an annuity for his services as trustee.

The Board now announce that they are advised that section 3, Finance Act 1894, operates to exempt from estate duty on the death of a trustee, whether he was a professional man or not, the part of the trust property required to produce so much of the annuity as represented reasonable remuneration for the services he rendered as trustee.

NEW APPOINTMENT FOR PROFESSOR STAMP

A new Chair in Accounting Theory – the first, so far as is known, ever to be specifically designated in this field – is being created in the Department of Financial Control at the University of Lancaster, and Professor Edward Stamp, M.A.(CANTAB.), C.A.(CANADA), is to be the first incumbent. His tenure takes effect from August 1st next.

At present Professor of Accounting and Business Method, and Head of Department, in the University of Edinburgh, Professor Stamp was previously Professor of Accountancy in the Victoria University of Wellington, prior to which he was a partner in the Canadian firm of Arthur Young, Clarkson, Gordon & Co, Chartered Accountants.

On moving to Lancaster, Professor Stamp will join Professor J. R. Perrin, Wolfson Professor of Financial Control, and the university will then become only the second British university (after London) to provide two professorships primarily related to accounting studies.

The Senate of the University of Lancaster has also agreed to initiate discussions for the founding of a Centre for Research in Accounting. If, as it is anticipated, these are brought to fruition, Sir Ronald Leach, C.B.E., F.C.A., has agreed to act as Chairman of the Trustees, with Professor Stamp as founder director of the Centre. The stated objectives and activities of the new Centre will include:

(*a*) to seek to build a creative bridge between the theory and practice of accountancy;

(*b*) to promote, organize, and help finance both theoretical and applied research in accounting and related aspects of finance;

(*c*) to provide a focal point for continuing co-operation in such research among academics, practitioners, management accountants; accountants in local and central government, financial and industrial organizations, the City and government;

(*d*) to organize short courses and conferences, and lectures and seminars by distinguished academics and practitioners, including visiting international authorities, and to encourage publication of research and discussion papers.

In view of the fact that the University Grants Committee does not at present provide sufficient financial resources for running centres of advanced study for business professions such as accountancy, the actual establishment and the full potential contribution of the Centre will largely depend on the degree of financial support and participation in the work of the Centre that leaders of the accountancy profession and the financial community are willing and able to give.

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

List of Members

The total membership of The Association of Certified and Corporate Accountants was 12,880 as at January 1st this year, according to the recently published *List of Members 1971*. The first half of the book is devoted to the alphabetical section containing full particulars of every member of the Association, together with the names of Council and Committee members and details of the district societies. The second half is almost entirely taken up with the topographical section, and is followed by a section of 65 pages comprising an alphabetical list of practising firms.

Copies of the publication can be obtained from The Association of Certified and Corporate Accountants, 22 Bedford Square, London WC1B 3HS, price £1 (post free) for members, and £1·50 (postage 25p) for others.

RETIREMENT OF FINANCE SECRETARY FROM RNIB

Mr J. A. Godfrey, O.B.E., M.A., F.C.A., retired at the end of last month after 21 years' service as deputy director-general and finance secretary of the Royal National Institute for the Blind.

Admitted a member of The Institute of Chartered Accountants in England and Wales in 1929, he originally joined the RNIB in 1947 as chief accountant, and his early years in this capacity were concerned with bringing the accounts into line with modern practice. Later, as finance secretary, he assumed overall responsibility for RNIB's financial affairs and investments and redesigned the presentation of the accounts for the annual report.

Mr Godfrey serves on the executive council of the Association for the Blind of the County of Middlesex. He is also active in ecclesiastical circles, being the honorary secretary of the Diocese of London Readers' Board and a lay-reader at St Peter's Church, Ealing. Recreationally, his interests are his garden, reading, walking, and his family of three sons and ten grandchildren.

IN PARLIAMENT

Estate Duty

Mr JOHN HALL asked the Chancellor of the Exchequer what is his estimate of the cost to the revenue of delaying payment of estate duty on that part of an estate left to a surviving spouse

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At the annual dinner and dance of the Bristol and District Society of Certified Accountants, held in the senior common room of Bath University recently. Mr E. A. Lediard Smith, F.A.C.C.A., then the President of The Association of Certified and Corporate Accountants, responded to the toast of the Association. He is seen here with his wife (*left*) talking to the President of the Society, Mr R. M. Mawditt, F.A.C.C.A., A.M.B.I.M., and Mrs Mawditt.

until such time as the survivor dies.

Mr PATRICK JENKIN: About £150 million.

Mr JOHN HALL asked the Chancellor of the Exchequer what is his estimate of the cost to the revenue of exempting from estate duty the value of the family house left to the surviving spouse.

Mr PATRICK JENKIN: About £40 million for the first full year.

Mr JOHN HALL asked the Chancellor of the Exchequer what is his estimate of the cost to the revenue of increasing the estate duty exemption limit to £15,000 and £20,000, respectively.

Mr PATRICK JENKIN: Nearly £20 million and about £45 million in addition to the cost of the budget proposal, assuming that the other change points on the scale of rates remained unaltered.

Hansard, May 4th, 1971. Written answers, col. 317.

SOUTH ESSEX ANNUAL MEETING

The annual meeting of the South Essex Society of Chartered Accountants will take place at the Masonic Hall, Mount Avenue, Hutton, Shenfield, Essex, on May 17th, starting at 6.30 p.m. After the formal meeting, at approximately 7.30 p.m., a discussion will be led by Mr D. S. Morpeth, T.D., B.COM., F.C.A., Vice-President of The Institute of Chartered Accountants in England and Wales, and chairman of the Special Committee on Development Policy, during which all members will have an opportunity to express their views on any subject concerning the Institute. Applications to attend (together with remittance of 75p for refreshments if required) should be made to Mr D. R. Heady, F.C.A., South Essex Society of Chartered Accountants, 187A South Street, Romford, Essex RM1 1QD.

WEST OF ENGLAND CHARTERED ACCOUNTANTS' AGM

Membership of The West of England Society of Chartered Accountants increased to 1,537 during the year ended December 31st, 1970, according to the annual report which – with the accounts for the year – will be presented at the 68th annual meeting of the Society to be held at the Imperial Hotel, Exeter, on May 24th, starting at 2.15 p.m.

Individual branch membership contributing to the overall increase is shown in the branch reports to be presented at their respective annual meetings. For example, the Bristol Area Society are holding their meeting on May 20th, at the Unicorn Hotel, Prince Street, Bristol 1, commencing at 6.30 p.m. (after the meeting there will be a talk on 'The Finance Bill 1971' by Mr D. W. F. Johnstone, B.A., A.C.A., followed by a general discussion).

Full details of all meetings, and copies of reports and accounts of the parent and branch societies may be obtained from Mr R. H. Langdon-Davies, D.F.C., F.C.A., District Information Officer, West of England Society of Chartered Accountants, Harmood-Banner & Co, 10 Elmdale Road, Bristol BS8 1SL.

LONDON ACCOUNTANTS' FOOTBALL LEAGUE

The 24 member-clubs of the London Accountants' Football League played 11 games each during the season 1970–71. There are 12 clubs in each division, and the following are the league positions at the end of the season:

Division One	*P*	*W*	*D*	*L*	*F*	*A*	*Pts*
Hazy Ideas (Arthur Young)	11	11	0	0	81	21	22
Shipley (Shipley, Blackburn & Co)	11	10	0	1	42	12	20
Crest House (Deloitte & Co)	11	7	1	3	53	24	15
Alpha (Arthur Andersen)	11	7	0	4	42	27	14
B.S. Casuals (Baker Sutton)	11	6	1	4	32	25	13
Heretics (Hereward, Scott Davies & Co)	11	3	3	5	33	43	9
Lennap (Pannell Fitzpatrick)	11	4	1	6	15	41	9
Hallets (Hallett, Laughlin Associates)	11	3	2	6	24	31	8
Hanover (Derbyshire & Co)	11	4	0	7	18	37	8
Cohorts (Crane, Houghton & Co)	11	3	1	7	22	41	7
Cannon (Charles Comins & Co)	11	2	1	8	15	32	5
Tansley (Tansley Witt & Co)	11	1	0	10	10	53	2

Division Two	*P*	*W*	*D*	*L*	*F*	*A*	*Pts*
Finnie (Finnie Ross)	11	10	0	1	49	18	20
Temco (Temple Gothard)	11	9	1	1	58	16	19
Smallfield (Smallfield Rawlins)	11	8	2	1	53	17	18
Pridie (Pridie Brewster & Gold)	11	6	2	3	33	15	14
S. Gees (Sproull, Goddard)	11	7	0	4	43	31	14
Wandabarr (Andrew Barr & Co)	11	7	0	4	33	27	14
Huallenac (Hughes & Allen)	11	5	1	5	45	41	11
Crest Res. (Deloitte & Co)	11	5	0	6	42	22	8
Tor Beta (Thornton Baker)	11	3	0	8	20	43	6
Albafisc (Allen, Baldry, Holman & Best)	11	2	0	9	23	48	4
Liquidators (Trent Raymond)	11	1	0	10	18	73	2
Alpha Res. (Arthur Andersen)	11	0	0	11	13	79	0

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Telling the Tale

'COMMUNICATION has always been vital, but never more so than now.' These words are taken from the statement of the then President of The Institute of Chartered Accountants in England and Wales, the late Mr Robert McNeil, F.C.A., which accompanied the Institute's annual report and accounts for 1965 (*The Accountant*, April 23rd, 1966). To judge from the remarks of Mr F. A. J. Couldery, F.C.A., and others at last week's annual meeting, and the letter from Mr H. O. H. Coulson, F.C.A., on other pages of this issue, these are words whose truth is not yet sufficiently realized in 1971.

Mr McNeil was announcing, barely five years ago, the appointment of the Institute's first full-time information officer, with specific responsibility for communications through the press and radio. Last month the second incumbent of that office left the Institute's service, after a tenure of barely four months.

The Institute is not, of course, obliged – any more than are other employers – to discuss its staff relations and recruitment problems in public, but we should be less than frank if we failed to record that the departure of Mr Alan Grainge, F.C.A., has been noticed with speculation and surprise in the national press as well as in professional circles. It has been variously alleged in other quarters – some of which we would hesitate to regard as authoritative – that he lost his job in consequence of a 'temporary' cutting back of the information department; that he was not incompetent; that he has not been sacked; and that the Institute could no longer afford to pay his salary.

There is obviously more at stake here than the fate of one individual out of the dozen or more members of the Institute secretariat whose appointments have ended, for one reason or another, in recent years; nor, on current experience, can we find much enthusiasm for free journals whose policy is inevitably dictated by economic considerations. As we wrote in these columns on October 15th last, the profession of accountancy needs to be served by an independent, informative, authoritative and liberal press; it is important, in turn, that the press should be kept fully informed.

The English Institute is at present the largest body of accountants in the United Kingdom, representing the vast majority of practising accountants and nearly two-thirds of all recognized members of the profession, and this position appears likely to continue for the foreseeable future. The Institute thus generates, in the normal course of events, more material of professional

interest than any other single source, and has a particularly significant part to play in the life of the business community. For a body of this standing to cut back on its information services, conjecturally in the interests of economy, savours of throwing out the baby with the bath water.

Meanwhile, we are glad to acknowledge our own indebtedness to those who on an *ad hoc* and *de facto* basis help to keep us informed. To say, as we have seen elsewhere, that the Institute now 'has no information officer' does Miss Margaret Strong, in particular, a considerable injustice.

FINANCE BILL

Small Disposals

A MAJOR criticism of capital gains tax is that it gives rise to many and complicated calculations which in the end produce either no tax at all, or too little tax to warrant the labour involved.

At first the Inland Revenue were prepared to carry out the necessary labour but the burden which this brought has induced a reluctance to assist the taxpayer. He has been left to apply extremely complicated rules, and to search out details of cost and dates of purchase, if he is to maintain an appeal against an estimated assessment.

The previous administration was pressed to exempt small disposals but instead instituted in 1968 an exemption where an individual's 'taxable amount' did not exceed £50, with marginal relief so as to limit the tax to the excess of the gain over £50. In all but the most trivial cases, this failed to do away with the necessity of the complicated calculations.

Clause 47 of the Finance Bill withdraws this exemption for the years 1971–72 and subsequent years. In its place for those years, and in addition to it for the year 1970–71, clause 47 introduces an exemption keyed to the total proceeds of disposal of an individual in the year of assessment. Taking first the case of a single individual, if the proceeds do not exceed £500 he is exempt from assessment to capital gains tax. If they slightly exceed £500, then the capital gains tax is not to exceed one half of the excess (clause 47 (2)).

In arriving at the figure of disposals, the incidental costs of making the disposal are to be deducted (Schedule 10, paragraph 3). As to what this phrase means, the new provisions are to be read as being contained in part III of the Finance Act 1965 (clause 56 (3)). This leads to the definition in paragraph 4 (2) of Schedule 6 to the 1965 Act, where the relevant words are:

> 'Expenditure wholly and exclusively incurred by him for the purposes of . . . the disposal, being fees, commissions or remuneration paid for the professional services of any surveyor or valuer, or auctioneer, or accountant, or agent or legal adviser and costs of transfer or conveyance (including stamp duty) together:
>
> (*a*) . . . and
>
> '(*b*) in the case of a disposal, with costs of advertising to find a buyer and costs reasonably incurred in making any valuation or apportionment required for the purposes of the computation under this schedule, including in particular expenses reasonably incurred in ascertaining market value where required by this Part of this Act.'

By the same token, the words 'the consideration for all the disposals' in clause 47 (1) must be construed under the provisions of part III of the 1965 Act. Thus it may be that the taxpayer will give away an asset which he already owned on April 6th, 1965. In those circumstances, it may be necessary to ascertain the market value of the asset both at April 6th, 1965, and at the date of disposal. The costs of both valuations will fall to be deducted in arriving at the figure to be compared with the £500 limit.

If there is consideration for a disposal which falls to be excluded from the computation of a gain arising on the disposal, then it is similarly disregarded for the purposes of the £500 limit (Schedule 10, paragraph 8 (1) (*a*)). A principal example is, of course, consideration which is charged to income tax as income, or as a trading receipt (Finance Act 1965, Schedule 6, paragraph 2 (1)).

Paragraph 14 (5) of Schedule 6 to the 1965 Act, excludes consideration ultimately shown to be irrecoverable. It follows that the exemption could be applied years after the year of assessment. Another exclusion from the £500 is consideration for a disposal where the gain accruing on the disposal is not a chargeable gain (Schedule 10, paragraph 8 (1) (*b*)).

This will cover, *inter alia*, the disposal of a policy of life assurance by a person who has not acquired the assurance for consideration in money or money's worth (Finance Act 1965, section 28 (2)). It will also include the proceeds of sale of tangible and moveable property up to £1,000 (section 30 (1)), the sale of a private motor-car (section 27 (1)) and the market value of an asset worth not more than £100 which is disposed

of by way of gift (section 27 (2)). As regards tangible moveable property, the exclusion accorded by paragraph 8 (1) (*b*) is extended by paragraph 8 (2). In so far as the disposal of tangible moveable property is not excluded by paragraph 8 (1), it is nevertheless to be disregarded for the £500 limit purposes, unless the tangible moveable property consists of commodities dealt with on terminal market, or is currency.

Paragraph 4 of Schedule 10 brings in, for the purposes of the £500 limit, notional consideration. Section 29 of the Finance Act 1970, introduced some relief from income tax and surtax for the owners of mineral rights. By way of counterbalance, section 29 (1) (*b*) provided that a certain fraction of the total of the mineral royalties should be treated as a chargeable gain for capital gains tax purposes. Paragraph 4 of Schedule 10 to the Finance Bill directs that this notional chargeable gain shall be treated, for £500 limit purposes, as consideration for a disposal. Presumably in such a case there will be no deduction for incidental expenses.

Although the Finance Bill abolishes capital gains tax charges where there is a deemed disposal on death (in relation to deaths after March 30th, 1971) the new £500 provisions apply also for the year 1970–71. Accordingly, paragraph 9 of Schedule 10 excludes the 'consideration' for a deemed disposal on death. However, in so far as the consideration for the deemed disposal on death produces a chargeable gain by itself, then that gain remains chargeable. It is only disposals by the deceased in his lifetime in 1970–71 which fall to be dealt with under the new £500 provision.

It is already a feature of capital gains tax that where consideration for a disposal is payable by instalments, then the assessments on the total gain are spread over the years in which the instalments are payable (Finance Act 1965, Schedule 6, paragraph 14 (1), (2), (3)). Similarly, for the purposes of the £500 limit, only such part of the consideration as is payable in the year of disposal is to be taken into account for that year. By the same token, an instalment payable in a subsequent year is to be deemed for £500 purposes as a disposal made in that subsequent year (Schedule 10, paragraph 5).

For an individual who has one large capital asset on which he wishes to realize the gain, it is open to him to find a buyer who will pay by instalments not exceeding £500 per annum. However, he cannot claim to reduce the total consideration on the grounds of discount (Schedule 10, paragraph 6). If the individual grants an option binding him to sell, the consideration for such option is to be brought in for the purposes of the £500 limit (paragraph 7).

The existing provisions for loss relief are modified by paragraph 2 of Schedule 10 to the Bill. Under section 20 (4) of the Finance Act 1965, allowable losses accruing in a tax year are set off primarily against the gains in that year and any balance is carried forward to subsequent years.

Where clause 47 (1) applies to the year of loss, it follows that there are no gains against which the losses of the same year can be set off. The carry forward of loss is restricted. In the first place it is reduced by the chargeable gains accruing to the taxpayer in the year of loss. *Ex hypothesi*, these are chargeable gains which are not in fact charged to tax, being exempt from assessment by virtue of clause 47 (1). Nevertheless, although exempted from assessment, such chargeable gains are to be deducted from the loss carried forward under section 20 (4). In relation to losses incurred in the year 1970–71, there is a further restriction on the amount to be carried forward. The loss is to be further reduced by the shortfall of the receipts below £500.

The logic behind this additional restriction appears to be that, since the shortfall would not have attracted capital gains tax even if received, then the fact of its non-receipt should not operate to reduce tax in subsequent years. These restrictions apply only where the case falls within clause 47 (1), i.e., complete exclusion. If the case falls within clause 47 (2) and a capital gains tax assessment is in fact made, but subject to reduced tax, the restriction on losses forward does not apply.

Special rules apply in the case of a married couple living together. As for normal capital gains tax purposes, disposals of one spouse to the other do not count towards the £500. It seems that these must be out-and-out disposals. If for instance the husband settles an asset worth £400 on his wife for life with remainder back to himself, then that is a disposal and it is not a disposal to his wife. Accordingly, the £400 requires to be brought into account for the purposes of the £500 limit.

This limit is available to the married couple as a whole. Thus if, in the example above where the husband had settled assets worth £400 on his wife and himself, if the wife herself made a similar disposal of an asset with a similar value then a total of £800 would have been reached and accordingly the exclusion would not apply. Where husband and wife each make disposals to third parties the consideration counts towards the £500 (clause 47 (3)).

The question whether a man's wife is 'living with' him for these purposes is decided by the same tests as those applied by section 42 of the Taxes Act 1970 (Finance Act 1965, section 45 (3); Taxes Act 1970, Schedule 15, paragraph 11, Table Part II). Normally, the chargeable gains of a married woman living with her husband are assessed on the husband (Finance Act 1965, Schedule 10, paragraph 3 (1)), although either

spouse can claim separate assessment (paragraph 3 (2)). Where separate assessment applies, the marginal relief conferred by clause 47 (2) is to be split between the two spouses in the proportions in which they would each pay chargeable gains tax if the marginal relief were not given.

For married couples living together, the rules about losses in paragraph 2 (1) of Schedule 10 of the Bill are modified by paragraph 2 (2). If spouse A has an excess of allowable losses over chargeable gains, that excess is to be reduced by any excess of chargeable gains of spouse B over spouse B's other allowable losses. In the case of disposals in a year after 1970–71, the losses as so reduced must be further reduced by any shortfall of total consideration below £500.

There is another modification, also confined to disposals after 1970–71. Assume that spouse A and spouse B each has an excess of allowable losses over chargeable gains. Any reduction for a shortfall below £500 is to be made once only and is to be apportioned between A and B in proportion to their respective excesses of allowable loss over chargeable gains.

CURRENT AFFAIRS

A Matter of Approach

IN its reply to the Monopolies Commission report, the Royal Institution of Chartered Surveyors criticizes the blurring of the distinction between professional and commercial life. Profitability rightly heads the list of commercial priorities; in the professions it is the client's trust in his adviser which is of first importance.

In drawing a distinction between the professional and commercial attitudes, not just in relation to profits, there is no suggestion by the RICS either that the professions should necessarily be treated more favourably than commerce, or that there is some inherent superiority in the professions which entitles practitioners to look down on those who earn their living in the commercial field. The supply of food and other goods is just as necessary as the provision of professional services; and there is no question of the one being more important than the other. The point which the Institution seeks to make is simply that they should be treated differently, in view of the difference both of the subject matter and of the criteria applying to it.

The RICS also criticizes the Commission's belief that price competition between professional men is inherently desirable, and the suggestion that the Monopolies Commission should be the body to which individual professions should now be referred. A body like the Monopolies Commission, whose doctrine has been developed in the course of a long series of commercial references is entirely inappropriate, it says, for the detailed study of individual professions. There are also serious objections to the Monopolies Commission's procedure.

Early End to Dual Currency?

DURING the period of approximately ten weeks after D-Day, £4·8 million of old pennies and £7·2 million of threepenny bits were returned to the Mint, and barely 3 per cent of all retailers are continuing to use these coins in change-giving. Encouraged by this experience, the Decimal Currency Board is thinking in terms of a much earlier end to dual currency than the 18 months originally proposed, and has suggested August 31st this year as a possible target date for demonetization of the 1*d* and 3*d* coins.

In a letter sent last week to about 100 representative trade and consumer organizations, the Secretary of the DCB has invited comment and objections to the proposed August 1971 target date. It is emphasized that the DCB is not committed to this or any other particular date, although its own enquiries so far suggest that an August 1971 ending should present no problems.

It is believed that the majority of 1*d* and 3*d* coins so far unaccounted for are at present stored in some form of home savings such as 'piggy banks' or charity boxes, and members of the public are accordingly urged to search out stocks of old pennies and threepenny bits and ensure that they are paid into the bank so that value can be obtained before these coins are demonetized. The shilling and two-shilling coins at present in circulation will be re-designated as 5p and 10p coins (with which they are already interchangeable). It has also been specifically confirmed that the sixpence will continue as a 2½p coin at least until February 1973.

Questions in Parliament

THE pending change to value added tax has inspired two motions on the House of Commons order paper. Neither is likely to be debated, although both have received a measure of support from MPs.

Mr Mark Woodnutt (Isle of Wight, Cons.) has support from both sides of the House for a motion

which urges the Government not to impose VAT on home-grown flowers or other non-edible horticultural produce. His motion notes the Government's assurance that VAT will not be imposed on food, but Mr Arthur Palmer (Bristol Central, Lab.) is less sanguine about that, and has tabled a motion seeking a 'categorical assurance' that the tax will not be applied to food.

His motion says that if it were, it would represent a major switch in fiscal policy.

Britain Takes the Risk

THE British insurance industry in 1969 employed more than 250,000 persons; one-fifth of these worked in the City of London. The industry is thus the largest employer in the private sector of the economy, only the governmental sector employing more. Total net premiums of underwriters and insurance companies was £3,500 million, of which about one-half originated overseas.

In terms of its premium income and its overseas operations the UK insurance industry is the second largest in the world. The American industry is the largest, but the UK industry is larger than its European counterparts.

These facts are contained in a new study of the industry, *Insurance in the Economy*, by Professor John H. Dunning of the University of Reading and published by the Institute of Economic Affairs (40p). According to the author the fastest-growing sectors of the industry, both in the UK and elsewhere, are motor and aviation, followed by ordinary life business. In contrast, fire insurance has lagged considerably behind.

The industry is, of course, one of the UK's leading invisible exporters; some three-quarters of Lloyd's premium income is derived from foreign clients, as is about 70 per cent of the premium income of British insurance companies. If the trends of the last decade persist into the 1970s, then by 1980 total premium income will be about £7,000 million, of which life premiums might account for about £3,000 million.

Professor Dunning argues that the life companies have to meet in the 1970s a challenge from other savings media while, given the larger risks now carried, the industry will need to seek additional sources of finance. If UK insurers are not to lose business to foreign insurers, and thus affect adversely the UK balance of payments, it is suggested that they should be constrained as little as possible by taxes or government regulations.

Journalistic Entertaining

NOT surprisingly, the Court of Appeal has reversed the decision of Megarry, J., that a newspaper publisher is entitled to deduct the cost of entertaining persons who provide news (*Fleming v. Associated Newspapers Ltd* [1970] T.R. 233.)

The general prohibition on the deduction of entertainment expenses in arriving at taxable profits is subject to an exception in favour of expenses incurred in (*inter alia*): 'the provision by any person of anything which it is his trade to provide, and which is provided by him in the ordinary course of that trade for payment, or, with the object of advertising to the public generally, gratuitously (Income and Corporation Taxes Act 1970, section 411 (9)).

Lord Denning, M.R., said it was the custom of journalists to keep in touch with knowledgable people, men and women of affairs; and experts in different fields. The obtaining of news and information was often accomplished by means of discreet entertainment. In 1965–66 the taxpayer's expenses in providing such hospitality amounted to £67,143.

The taxpayer said that it provided news, which it was its trade to provide, and that the entertainment expenses were incurred for the purpose of providing news. That was what Megarry, J., had decided. However, Lord Denning said he could not construe the subsection so widely. It applied to traders, like restauranteurs, who provided meals, or toothpaste manufacturers, who gave samples, so long as that was done in the way set out in the subsection; either in the course of their trade and for payment, or for the purpose of advertising to the public in general gratuitously. In the present case the expenses were incurred to supply meals and drink, which it was not the taxpayer's trade to supply.

The distinction drawn by Megarry, J., between expenses incurred in persuading the buyer to buy goods and expenses incurred in the provision of the goods was uncertain and its lines were not distinctly drawn. It did not appeal to Lord Denning. The Inland Revenue appeal was allowed with costs but the taxpayer was granted leave to appeal to the House of Lords.

Travel Expenses Deductible

THE Inland Revenue's attempt to disallow the travelling expenses of a sub-contracting bricklayer received a further check from the Court of Appeal on May 6th in the case of *Horton v. Young*.

The taxpayer entered into oral contracts with a builder and main contractor for laying bricks on various sites. He was the leader of a team of three men whom he collected in his car and drove to the sites. In the year in question he worked at various sites up to 50 miles away from his home in Eastbourne. There were no offices at the sites, but at his home he had in the lounge an office table, a typewriter, and business files, and the builder used to call on him there to agree the sites and hourly rates.

The taxpayer claimed a deduction of £291 for motor and travelling expenses in arriving at his assessable profit for 1968–69. In the High Court (*The Accountant*, December 10th, 1970) it was held that all these

expenses were deductible, and the Inland Revenue appealed to the Court of Appeal.

Lord Denning, M.R., said that the present case was very different from that of the barrister in *Newsom v. Robertson* (31 ATC 429). On the facts stated, the only inference was that Eastbourne was the *locus in quo* from which the whole trade was carried on. It was a fact that the Revenue allowed travelling expenses to a chimney sweep, to a commercial traveller, and to a barrister travelling on circuit. In his lordship's view, that practice was not a concession but was in accordance with the statutes. If the taxpayer had had a site 200 yards away from his home and then travelled from there to Crystal Palace (presumably also to work at Crystal Palace), it was agreed that that would be deductible. But the Revenue said that if he travelled direct to Crystal Palace, that was not deductible. Such a distinction was not good sense. The Revenue appeal should be dismissed.

Leave to appeal to the House of Lords was given, the Inland Revenue agreeing to pay the taxpayer's costs in any event.

THIS IS MY LIFE

A Prophet without Honour

by An Industrious Accountant

AS I write, the directors are in the boardroom discussing their advertising programme for the summer season. They have before them a cost budget, a turnover percentage – escalation graph, the senior salesmen, and two heavily-bearded young men from the advertising agency. These are described as 'creative artists' (shades of Leonardo da Vinci!) and carry portfolios with sketches, colour-cards, and detailed campaign presentations.

They have also statistics of the number of people who, at any given moment in time or space, are breathlessly absorbing their psychedelically-created messages. The managing director has accepted them at face value (it's odd how marketing executives become mesmerized by glib talkers) so it behoves a sceptic to walk warily.

No accountants are permitted to attend these ultra-secretive meetings, as the function is listed under 'sales manager' in the firm's rather rigid organization chart.

It wasn't always thus. Years ago, in the informal days when the MD picked everybody's brains regardless of status, I remember sitting in at such another momentous gathering.

At that time our turnover was stagnant, our advertising having for some years been concentrated on space in the city's buses. Our placards bore curt and uninspired messages, like 'Best value at ————'s' or 'Always shop at ————'s'; but they happened to be the chairman's own ewe lamb, and criticisms were tempered to the shorn muttonhead's sensitive feelings.

We ranged round routine newspaper insertions and seasonal splash half-pages, invitations to film stars to open the spring sales as against lucky-dip tickets for special customers, but without arriving at any unanimous choice of novelty. Then suddenly I had a brainwave.

What about a monthly company magazine as the answer to our problem? To a raised eyebrow silence I listed the benefits. Our hundreds of staff would flock to take it home, thus ensuring thousands of readers. Why? Because of all the personal references! Congratulations to Desmond on being picked as scrum-half for the local XV, to Marleen on her engagement, to Trevor on his promotion, or to Bessie on the twins, for a start. . . .

The personnel director said churlishly that he could see problems, libel claims and so on, ignoring my assertion that staff morale would be improved, so I turned to the probable efficiency pay-off. We could have helpful articles on the comparative merits of beaver or musquash coats, or the new drip-dry shirts, or the way to judge a good tweed. Like that, we'd educate both staff and customers.

The deputy-chairman said that too much education had its disadvantages, so I coaxed him with the idea that every page could have a 'special bargain' inset, highlighted by funny limericks, or 'Was that JYE with JHN at the Imperial last night?' or 'Coming Events'.

The chairman said we'd never had anything like that before, and it would cost a mint of money; the MD said we'd nobody sufficiently literary to do it; Prinny said it was risky to indulge in personalities even if it did enhance the sales figures. The scheme was thrown out without a word of support, with a final derisive guffaw from the deputy-c.

The sales manager has just emerged. 'Those weirdies recommend some sort of house journal, all glossy adverts and gossip', he said. 'We'd better suck it and see; after all, we've paid them a whopping big fee for something really new and impactful.'

To Tax and to Please . . .

A Critical Appraisal of Mr Barber's Budget

by JACK CLAYTON, F.C.A.

'For many years, under one government or another, the economic performance of our country has been poor.'
– Budget Statement, March 30th.

'The perfidy of post-war British government has been surpassed by its incompetence.'
– *The Accountant,* March 25th.

'All our hopes for the future will be but dust in our mouths if we do not repel the assault upon the value of our money.'
– Mr Barber in 1971.

'The way to stop inflation is to stop prices rising.'
– Lord Beeching in 1964.

ANTHONY BARBER and his supporters made Budget day a wake. Not only did he enrapture them by his felicity in disposing of many of the minor aberrations of our taxation complex, and whet their appetites with a broad conspectus of tax reform: he conjured up £1 billion of largesse to give away.

Political triumph was procured by fiscal adroitness; and Roy Jenkins's belated realization that he was the unwitting founder of the feast coloured the whole of his contribution to the debate next day. Despite his earlier disavowal that 'the reason I attach the greatest importance to monetary control is not my conversion to some obscure foreign cult'. Mr Jenkins had planned a net surplus of £1 billion; and it was this surplus (though eroded by inflation and decimated by the postal strike) that Mr Barber – to the tumultuous joy of his supporters – disseminated.

Judgment of Solomon

After every war, it is easy to distinguish the rich from the *nouveaux-riches*, ostentatious in their opulence; but, since 1945, we have been beset by the *nouveaux-pauvres*, ostentatious in their poverty. The FBI claimed in 1951 that the capital resources of industry were in danger of exhaustion as a result of combined inflation and high taxation.

Mr Barber was as judicious as Solomon – nay, more: not only did he divide the baby (without mortality), but he conjured up three halves; one he gave to the *nouveaux-pauvres* – perhaps more for their moral than financial stimulus; the other, to those whose poverty had been intensified by Mr Jenkins's rapacity. This half he took away later by sleight-of-hand to give to the deserving poor – those who barely survive on the inflation-eroded state pensions.

Champagne corks must have been popping merrily in Tothill Street: not only incentives to top executives, but also £200 million off corporation tax (with careful timing to dissemble half) plus a neat manœuvre whereby the £250 million employers' share of the increased pension costs was offset by the reduction of SET.

Adam Smith's first canon of taxation was that all should contribute according to their respective abilities. Table 1 depicts the huge post-war increase of the tax burden on incomes, and the inequitable shift from companies to persons.

While company tax has been reduced, personal tax has been increased five times; and all dissembled behind a façade of the imposition of a 'swingeing' corporation tax (reputed to require 35 per cent to preserve the *status quo* but imposed at 40 per cent and increased pre-Barber to 45 per cent) and the reduction in the standard rate of income tax, from 9*s* 6*d* to 7*s* 9*d*.

As part of the charade, Mr Heath, in leading the Opposition attack upon Mr Callaghan's 1965 Budget, said – 'This is the first increase in income tax since 1951'; while Mr Barber, in introducing his mini-Budget last October, said 'Our object . . . is to enable the individual citizen to keep more of the money he earns.'

Words and deeds

Mr Barber would do well to remember Bernard Shaw's maxim – 'a man is judged not by the profession on his lips, but by the assumptions on which he acts'. The *Financial Statement* shows:

	Income tax and surtax £ million	*Corporation tax £ million*
1970–71	5,990	1,775
1971–72	6,826	1,445
	+14%	−19%

It was in an attempt to quantify Mr Barber's generalization that I undertook the perilous course of guesstimating the probable 1971 outcome of Mr Barber's Budgets.

Industrial savings swindle

'National Savings are little short of a fraud.' This comment by Lord Shawcross I have already deemed a little short of the truth – National Savings represent the most gigantic fraud in British history. In size – £30 billion – I had, with reluctance, to concede it priority; but, although smaller – £10 billion – first place for duplicity must be accorded to The Great Industrial Savings Swindle. Its results are depicted in Tables 1 and 2 overleaf.

Post-war, companies have been accorded capital allowances some £20 billion in excess of their depreciation –

Table 1. Distribution of U.K. taxes paid

	1952 £ million	1963 £ million	1970 £ million	1971 £ million
Paid by:				
Persons	3,209	6,727	14,536	15,750
Companies ..	982	851	964	800
Total[1]	£4,191	£7,578	£15,500	£16,550
	Per cent	*Per cent*	*Per cent*	*Per cent*
Pro rata to net incomes[2]				
Persons	25	26	34	33
Companies	35	16	15	11
Total	27	25	31	30
Proportion paid by companies, per cent ..	23	11	6	5

(Source: Blue Books (Cmnd 4631) and Budget Financial Statement, 1971–72.)

[1] UK taxes paid (direct and indirect) less investment grants (estimated for 1970), but excluding capital taxes and taxes on persons abroad.

[2] Total incomes less interest and taxes paid abroad.

a tax bonanza of £10 billion, or enough lolly to have nationalized the top ten of British industry and to have forestalled the USA take-over of the motor industry.

It represents an average cost of £500 to each of the 20 million personal taxpayers, and currently absorbs 20 per cent of their income tax. Like all the best confidence tricks, it relies upon the eager co-operation of its victims. Distinguished members of the profession emulate the reputed role of the cavalry in war, to lend an air of respectability to an otherwise sordid struggle: they evolve idealistic, if ill-founded, concepts such as 'true profit', 're-valorization' and 'replacement depreciation'. Subjectively, they seek to develop the art of accounting: in fact, they are helping, *inter alia*, to add at least £2½ million to the annual tax bill of members of the English Institute.

Logic of capital formation

Every debit must have its credit, and this simple rule of double-entry exposes the fallacy inherent in the importunities of the 'cut company tax' lobby. Capital formation is equivalent to savings: this is demonstrated by Table 6 of the Blue Books, which reconciles the savings of all sectors with the total capital formation.

Savings, in the form of fixed assets, stocks and net investment abroad, represented 15½ per cent of gross national product in 1952, 18 per cent in 1963 and over 21 per cent in 1970. Not only is the current gross rate the highest in our history, but the trebling of the net rate from 4 per cent of net national income in 1947 to 13 per cent in 1970 ranks, on expert evidence, as another industrial revolution.

The financial press is inundated with sad stories of 'lack of company liquidity', one day by Professor Paish, another by Sir Fred Catherwood, and do I not recall, not so long ago, by Mr John Davies?

The art of propaganda is to take one or two accepted 'facts', develop a simple argument and then adduce a 'conclusion' which does not of necessity flow from the argument.

For example: British capital formation (which once led the world) is falling behind that of our competitors; *ergo*, we must cut company tax. As indicated above, not only is the initial 'fact' merely a half-truth; but the 'conclusion' has about as much to do with the question of saving and capital formation as had the flowers that bloom in the spring. But when repeated *ad nauseam* by distinguished professors of and reputed experts in economics, by leaders of industry and Cabinet and future Cabinet ministers, it pays handsome dividends.

In a 1951 pamphlet, *The effects of inflation on industrial capital resources*, the FBI set the stage:

> 'The capital resources of industry are not being merely strained but are in danger of exhaustion as a result of inflation and high taxation'

– and acknowledged Professor Paish as 'the onlie true begetter' of the theory that, without the free nourishing gravy trains of Whitehall, the corporate sector, post-war, was too impoverished to pursue its historic mission of investing capital to make a profit.

An industrial evangelist

On his departure from NEDO, *The Times* paid a warm tribute to Sir Frederick Catherwood as 'an industrial evangelist'; but it did less than justice to Sir Frederick in stating that NEDO had been used 'since June last, for nothing in particular'. *The Times* has overlooked Sir Frederick's conversion of the Treasury, in general, and Mr Barber in particular, into the strongest protagonists of the 'cut company tax' lobby.

On October 2nd, 1970, Sir Frederick gave an address, to an audience of professional women, on 'The problem of British economic growth.' I have already cited his grim diagnosis; and the main element of his 'cure' was:

> 'No solution will be sufficient which does not increase substantially the cash flow available to the private sector

Table 2. Company fixed capital formation and allowances

£ million	Capital Formation[1]	Consumption	Allowances[2]	Free Depreciation[3]	Tax bonanza[4]
1948	554	296	303	500	60
1952	630	407	398	550	80
1963	1,964	914	1,752	1,530	650
1969	3,182	1,412	3,085	2,630	965
1970 (estimated)	3,633	1,580	3,400	3,000	1,000
1971 (estimated)	4,000	1,750	4,200	3,300	1,250

(Source: Blue Books (Cmnd 4631) and Financial Statement 1971–72).

[1] Expenditure on fixed assets.

[2] Including allowance equivalent of investment grants paid in cash since 1966.

[3] Eliminating expenditure not allowable for tax.

[4] Depreciation assumed at 60 per cent of capital consumed (at current prices).

of industry. . . . First, it can be done directly by reducing companies' tax burdens . . . .'

The influence of Sir Frederick has subsisted not only in the power and frequency of his advocacy, but above all in that he has periodically, for the last five years, had the whole establishment as a captive audience – often with the Prime Minister or the Chancellor in the chair. No wonder that, four weeks later, in his mini-budget statement, Mr Barber said:

'The ending of the investment grants scheme will yield substantial savings in public expenditure. . . . But the present level of company profits and liquidity makes it desirable that a large part of these savings should be channelled back to the corporate sector and this will be achieved through the tax system.'

The continuation of the £1 billion a year tax bonanza was re-affirmed in Mr Barber's Budget statement; but Sir Frederick could not refrain from a valedictory paper, at his last meeting. In his paper he identified the major problem as being to increase the real resources available to the most competitive sectors of British industry; tax policies which would shift resources to the corporate sector.

The Treasury takes over

The headline 'Financial deficit in companies' sector sharply up', in the *Financial Times* for April 24th was explained by the comment: 'The financial deficit of the companies' sector rose by £600 million, from the 1969 level to over £1,200 million. On the other hand, the personal sector's financial surplus went up by more than £300 million.'

I had almost decided to sell all my equities before all the blue chips followed Rolls-Royce 'down the drain', when I realized that it was copied from the latest Central Statistical Office handout on 'Net acquisition of financial assets.' Denuded of its propaganda, the handout merely indicates that, in 1970, companies raised more capital than in 1969; and that part of it was provided from personal savings.

Table 3. Disposal of company incomes

	1952 *Per cent*	*1963* *Per cent*	*1970* *Per cent*
Total income	100	100	100
Taxes paid[1]	37½	21	20
Distributions[2]	25½	36	41½
Retained	37	43	38½
Prudent minimum retentions[3]	15	26	36
Balance available for expansion	22	17	2½
Expansion:			
Capital formation[4]	17½	35	43½
Less capital consumption	12½	15	17
Net capital formation	5	20	26½
Additional capital required	—	3	24
Capital formation – *pro rata* to GNP, per cent	3·8	7·5	8·6

(Source: Blue Books and Cmnd 4631).

[1] Taxes paid abroad and UK taxes paid on income, less investment grants.

[2] Interest and dividend payments and profits due abroad.

[3] Capital consumed, future tax reserve and appreciation of stocks.

[4] Expenditure on fixed assets plus physical increase of stocks.

Other Treasury propaganda is even more lurid. Apparently apprehensive regarding the forthcoming Finance Bill debates on the continuation of the £1 billion a year subsidy of company capital formation, it made 'lack of company liquidity' a prominent feature of its monthly 'Economic progress report'. This contains a graph depicting an affluent personal sector plus a companies' sector increasingly in deficit; it omits to note that the increased capital requirements of companies are due to a combination of rapid expansion and imprudent distributions – an omission I have remedied in Table 3.

During the past two decades, the company tax bonanza has been used, in the main, for higher distributions; consequently, their more-than-doubling of the rate of relative capital formation has required the raising of additional capital. Such a policy is one which companies are entitled to follow; but it is inequitable – nay, iniquitous – that £1 billion per annum of personal taxes should be so utilized to subsidize company dividends.

The detail of the 'Financial assets' statements is revealing; trading companies raised £1½ billion of additional finance (1969, £1¼ billion), mainly in the form of loan stocks (including Eurodollars) and bank loans, thus continuing the post-1966 trend to obtain tax relief on servicing additional capital. It sufficed not only to finance its increased investment in tangible assets (Statement 3) plus stock appreciation £723 million but also £449 million 'cash expenditure' on acquiring subsidiaries and on trade investments and £326 million 'bank deposits, notes and coin'.

Britain in hock

More startling, however, is the composition of the personal sector 'surplus' of £1,202 million (1969, £889 million). The main 'financial asset' is 'Life assurance and superannuation funds' £1,675 million; and the Blue Book discloses that this item comprises (in an approximate 2 : 1 ratio) 'employers' other contributions' and 'adjustment for life assurance and superannuation funds', being the estimated accretion to such funds from investment less benefits paid. Otherwise the personal sector shows an annual deficit of some £½ billion.

Included in the annual analysis of the personal sector 'Financial assets' is a recurring item of unidentified indebtedness; it amounted to £816 million for 1969 and £475 million for 1970 and averaged £510 million per annum during the past decade. This unidentified borrowing was running at a much higher relative rate in the early sixties, until it was discovered (and revealed in the 1965 Blue Book) that the ever-increasing pressure of personal taxation was compelling the encashment of 'company and overseas securities' at a rate of approximately £½ billion per annum, rising to £915 million in 1970.

The Crowther Report [*The Accountant*, March 25th] now fills in the picture; complementary to the £1 billion a year subsidy to companies from personal tax, the personal sector has been getting 'in hock'. Consumer credit has risen from £10,049 million in 1966 to £13,194 million in 1969.

The truth is that 'lack of company liquidity' is an inverted fairy-tale with the wicked fairy triumphant. In order to survive, and pay the £10 billion subsidy to the company sector, the personal sector has borrowed from the company sector – and at exorbitant rates of interest.

Free depreciation is the logical basis of capital allowances: it is not sensible to seek to tax profits already expended on industrial capital formation, nor to reduce the

State share of one year's GNP by reference to the capital formation of earlier years. But such a discipline is anathema to the Treasury; and they persuaded the Tucker Committee (1951) and the Royal Commission on Taxation (1955) that free depreciation would restrict their ability to stimulate socially desirable capital formation.

Both the Committee and the Commission approved of initial allowances (introduced by Sir John Anderson in 1945), affirmed Institute Recommendation 15 despite strong representations against it, both in writing and orally, by Professor Paish and firmly rejected pleas for the adulteration of accounts for taxation purposes. In the Royal Commission's words:

> 'We do not accept that as a matter of principle a trader's accounts in times of inflation must be computed with allowance for the cost of replacement of fixed assets or the fall in the purchasing power of money.'

The view of the Commission on corporate taxation was that it should be at a slightly higher rate than personal tax:

> 'We accept the necessity for subjecting company profits to a special tax régime that is something more than a mere attempt to collect personal income tax in advance.'

No doubt its members would have been shocked, had they realized that the Treasury would subsequently so manipulate capital allowances as to negate their recommendation.

According to *The Times* of May 5th, President Nixon's recent proposal to subsidize corporate capital formation in the USA (though on a smaller relative scale) has forced the USA Treasury to hold public hearings, whereat Congressman Vanik of Ohio summarized the opposition case:

> 'I believe the Inland Revenue Service's proposed asset depreciation range ruling is unconstitutional, dangerous to our democratic system of checks and balances, an illegal usurpation of authority and a squandering of the taxpayers' money.'

The report also stated that 'further court action charging the Administration with illegality is almost certain to follow'.

Fiscal base of industrial unrest

The main elements in the post-war regression of our fiscal system are:

(1) Wanton subsidy of companies from personal taxation;
(2) Transformation of 'National Insurance' into a tax – a vicious poll-tax on lower paid employees;
(3) Escalation of indirect taxes;
(4) Erosion of personal allowances by inflation.

They reflect a veneration of the non-working population (including the 'dead labour' embodied in capital assets) and a contempt for the working population. The latter is so mulcted by taxation that it consumes an ever-decreasing share of the GNP – and has got deeply in hock in order to buy consumer durables – which is increasingly devoted to capital formation, exports and the maintenance of the non-working population.

Tax allowances for the 'maintenance and replacement' of capital are now relatively five times as generous as personal allowances (less 'National Insurance contributions).

Mr Barber's Budgets have exacerbated all these trends. Such a fiscal policy is suicidal; it is one of the basic causes of our present industrial unrest.

The pre-war single allowance was £100 – equivalent to £400 today – as compared with the present allowance of £325; but £125 of today's figure represents additions made by Mr Callaghan and Mr Jenkins in lieu of reduced rate and other allowances withdrawn. The effective current personal allowance is only one-half of the pre-war equivalent.

The Inland Revenue used to publish, in its annual Report, data as to the effective rate of tax; but this data was dropped, during the time of the last Labour Government and the reason is not far to seek:

	1952	*1963*	*1960*
	£ million	*£ million*	*£ million*
Pay	8,230	16,390	24,185
PAYE deductions ..	556	1,385	3,278
PAYE effective rate ..	*1s 4d*	*1s 8d*	*2s 9d*
Standard rate	*9s 6d*	*7s 9d*	*8s 3d*

The above data indicate that, in less than two decades, the erosion by inflation of personal allowances has increased income tax on pay by some £1½ billion per annum.

If the standard rate of income tax were increased by 10 per cent each year, the Government would, undoubtedly, experience more of that 'social unrest' which, on the belated testimony of Lord Chandos, they use inflation to avoid. Indeed, if inflation did not exist, the Treasury would have been compelled to invent it; as it is, they stimulate it as the most convenient mode of defraying their unchecked squandermania.

First priority

What is now disturbing the Government is not inflation as such (for which their squandermania is mainly responsible) but 'cost inflation'. Employees and unions are becoming sophisticated and are seeking, in their wage-claims, to recover not only 'cost-of-living' increases (both past and prospective) but also 'plus 50 per cent' to cover PAYE and National Insurance deductions on the extra pay.

Despite Mr Barber's eloquence, *The Economist* for April 24th stated – 'It has become impossible to say with honesty that the Government's anti-inflationary policy is succeeding.' The evidence is in the Financial Statement that Mr Barber had not even convinced himself. His estimate for public expenditure was £2½ billion more than his January estimate (£22¼ billion), whereof only £400 million (net) was for extra commitments.

The balance of £2·1 billion was his allowance for one year's inflation – 9¼ per cent!

The simple fact is that there is no 'wages fund' for even a 1 per cent non-inflationary wage award; and Mr Heath's 'offer' (in his Sheffield Cutlers speech) of a 3 per cent increase in 'real wages' has no factual basis. Government squandermania has pre-empted 90 per cent of the 20 per cent growth of the last seven years; and the present outlook is even grimmer – growth minus ½ per cent, public expenditure plus 2½ per cent (at constant prices)

The only viable solution must comprise both a price freeze and a drastic cut in public expenditure. An immediate start on the latter could be made by dropping the provisions in the Finance Bill for perpetuating the £1 billion a year company subsidy from personal taxation, on the spurious grounds of 'lack of liquidity'.

Such a plan would give Mr Heath a new start for his avowed intent 'to change the course of history': it would release a large part of the £2·1 billion provision for inflation in the Budget. This could be used to cushion the impact by negative income tax, free depreciation and a scheme for backward relief of corporation tax paid against losses.

Salaries in Accountancy

THE demand for accountants at all levels has remained fairly constant in the last two years – which, in the face of reduced demand for staff in fields like advertising and marketing, reflects the constant need for accountants whatever the state of the economy. In this connection, one type of accountant who has become especially valuable and more highly paid in these days of tight credit is the credit controller, who may now be a senior accounting executive earning up to £3,000 p.a., even without formal qualifications.

An important change in the last two years has been the tendency for salaries in the profession and in industry to come together in London and the cities of the Midlands and the North of England, resulting from the necessity for firms of chartered accountants to keep staff in competition with industry. Elsewhere, where there are no marked shortages of professional staff, the difference of salary in favour of those in industry continues, but to a decreasing extent.

This information emerges from a report recently prepared by Mr Richard Broyd for the Industrial and Professional Careers Research Organization, and based on material from the Graduate Appointments Register, Accountancy Personnel Ltd and Alfred Marks Bureau. In industry, after the age of 30, the able and creative accountants streak ahead of their less brilliant colleagues. Chief accountants and financial controllers, who usually get the job between the ages of 32 and 38, may earn up to £8,000 in large companies. Financial directors earn very much more than this, and leadership of the commercial function increasingly results in accountants becoming managing directors.

As may be seen from the accompanying tables taken from the April Salary Survey of the Graduate Appointments Register, a newly qualified senior in a professional practice may now expect up to £2,300 in his first year (possibly slightly more in the largest firms), rising with normal expectations to £3,000–£3,250 as a manager or salaried partner at age 30. Beyond this point, his progression is difficult to predict unless he becomes a partner. Typical figures quoted for partners' incomes are up to £6,000 per annum in a medium-sized provincial firm and £10,000 or more in an old-established City practice.

All-important target

Comparable figures in industry or commerce would be £2,200–£2,400 at age 25, rising by £100 or more for each year of post-qualification experience to reach 'the all-important target of £3,500 at 31 or 32'. It will be seen that there is now little significant difference between the two groups, salaries in public practice having shown a more rapid rate of increase since 1969.

In public practice, some accountants earn salaries well in excess of those earned by all but the very top men in industry, because they are invited to serve as directors on the boards of companies for whom their firm will very often have provided professional services for some years. There can be no doubt that the popular image of firms of chartered accountants has changed to a considerable extent from one of book-ticking clerks to that of a dynamic service industry using computers, flow charting and other modern techniques, especially in the large centres of population. This is encouraging more of the best young accountants to stay in the profession.

Newly qualified men taking up appointments in public practice in London

From a small provincial firm (usual age 22–24)	From a medium-sized London firm (usual age 23–25)	From a large London firm or with a degree (usual age 24–26)
£2,000–£2,100	£2,100–£2,300	£2,200–£2,400
(£1,650–£1,700)	(£1,700–£1,775)	(£1,775–£1,850)

N.B. Add £100 for every year of post-qualification experience.

Newly qualified men in industry and commerce
A.C.A., A.A.C.C.A., A.C.W.A. (London)

	Age 21–23	23–25	26–27
Newly qualified	£2,000–£2,200 (£1,750–£1,900)	£2,200–£2,400 (£1,900–£2,150)	£2,400–£2,500 (£2,150–£2,250)
Plus one or two years' post-qualification experience	£2,250–£2,400 (£2,000–£2,150)	£2,400–£2,650 (£2,250–£2,450)	£2,600–£2,900 (£2,400–£2,600)

Organizing and Financing the Practice

by ROBIN WALDRON, F.C.A., F.A.C.C.A.

IT may seem unnecessarily obtuse of a speaker, in preparing a paper on a subject which seems both plain and straightforward, to begin by departing from the title; and yet this is precisely what I am going to do. The reason is that I am convinced that the financing of a practice depends completely upon the organizing of that practice, and therefore, although by the time I have finished I hope that the organizing is the more important of the two problems under consideration, for the first part of my paper I think it will be helpful to consider in some detail the financial requirements of the practice.

Let us, then, look at these requirements. They fall under reasonably distinct heads (though sometimes merging in what may be termed a 'package deal'), as follows:

(1) Capital requirements;

(2) Short-term finance;

(3) Death or retirement;

(4) Goodwill.

Of the above heads, three directly affect the practice. The fourth, however, vitally affects the partners – and often is the first factor to do so, especially in the smaller firm. This is because many smaller firms have been more reluctant to abandon the traditional purchase of a share in the goodwill of the business, whereas the larger firms have largely dispensed with goodwill, having preferred to deal with retirements by providing annuities from within the firm. We have not by any means finished with goodwill, however, and we shall return to this subject shortly.

Capital requirements

What determines the capital needed by any business? It is determined by the amount by which its current cash obligations are exceeded by its incoming cash. In an accountant's practice, fixed assets are often modest in value, unless a firm owns its own premises. Office equipment may be of moderate size, and cars not expensive factors.

The bulk of capital must be reflective of work in progress (whether valued or not) and debtors.

Let us examine these items, first of all, in the context of an existing practice and then in the context of the new practice, involving a sole practitioner.

The existing practice has substantial work in progress, and a debtor list. However, the work in progress is frequently and deliberately undervalued. This has been done for taxation purposes and has been accepted by the Inland Revenue. Yet the fact that it does not appear at its proper level does not mean that it does not exist. The true capital employed in the practice is the cost price of the work in progress and not the modest valuation. If the partnership ceased, this sum ought to be recoverable. If it continues, it will be recovered with some addition for profit. It may need adjustment upon retirement and if so will affect the amount to be paid in by a new partner. Sooner or later the Inland Revenue will insist on a change in the tax basis.

Similarly, a practice which has been in existence for some time has its debtors. Capital has been provided to support these debtors, and though they may grow due to expansion or a period of credit scarcity, by and large there is a sort of acceptable level about them.

In both cases, nevertheless, they represent cash, which will have been built up over the years from:

(1) original capitals;

(2) retained profits;

(3) additional capital paid in to finance expansion;

(4) capital from incoming partners, *less* paid to retiring partners.

The new practice, however, cannot rely on the second of these sources yet, and is unlikely to be able to call on any others but the first. The sole practitioner, moreover, needs time to build a practice of any size, however promising his 'nucleus' may be. He has one compensation in that initially his work in progress is non-existent in cash cost as it represents his own time. (Perhaps, however, this is more theoretical than real – he has to live, and this is a 'cost' in economic terms.) The real crunch comes when he employs his first clerk.

Most small practices either began or remain sole practices. Their cash requirements were provided gradually by the simple expedient of the accountant living modestly and allowing the cash inflow to finance his needs. Because of low overheads and few staff, he could do this without needing an enormous initial capital. Nevertheless, he did need some capital and nowadays the impact of heavier personal taxation has made it less easy to build up funds to meet an expanding business.

The sole practitioner initially has a problem in human relations, too: he is putting up his plate, but he cannot advertise. He has perhaps a small nucleus, either actual or promised. He has, let us say, enough money to survive for a year and to pay a secretary and the rent of an office, and the minimum of furniture (which can be leased), and stationery It is not ideal to work from home, though it has been done. But he is nervous about sending out his fees too soon. He does not want to give the impression that he is short of funds, and he fears it is unprofessional to press for prompt payment. It is precisely because he is on his own that he is likely to be taken advantage of; that some of the new business he takes on, because he is eager for work, will not pay well or at all.

In fact, therefore, he needs to be tough on his clients. He needs proper instructions from clients. Perhaps a bank

The substance of a paper presented to the London and District Society of Chartered Accountants' recent course on 'The Sole Practitioner and the Smaller Firm'.

will send him a client; he should be able to obtain an indication here. If the case is an emergency one, I see nothing unprofessional in a token payment in advance. As each stage is reached where a certain amount of work is complete, he should draw up a bill and send it in. There is nothing against sending a fee at the same time as accounts are completed, though I should advise against doing so at the draft stage, because clients have the habit of altering their minds and a supplementary fee is a difficult fee.

Time recording

He should also start by including proper disbursements in his calculations and he should keep a proper diary of how his time is spent. A great deal of the time of a sole practitioner – and indeed of any partner in the smaller practice – is spent on the telephone. A pad kept by the telephone to record brief details of the points discussed serves a dual purpose. It provides a record for the file or for further action, and it provides a time record for the diary at the end of the day. For those who find it impossible to write up a daily diary, I suggest that these forms, with brief notes in the diary of major tasks and appointments and a file of all copy letters dispatched and an inwards letter register may enable the task to be dealt with weekly or even monthly, but it is preferable to discipline oneself strictly on this matter.

Many partners, however, do not have the advantage of this gradual acclimatization into their financial arrangements but buy themselves into an existing practice either in place of a retiring practitioner or as an additional partner. There are various types of arrangement which may arise in such cases. Despite the virtual disappearance of 'purchase of goodwill' in the larger practices, where goodwill as such has been abandoned in favour of annuities to retired partners or their dependants, those contemplating this method of entry into a smaller practice may find that goodwill still remains a factor.

Borrowing money both for the purchase of goodwill and the provision of capital is possible, and there are finance houses which specialize in this field. Nevertheless, the firm into which the new partner intends to make his way should be the first to accept that a young partner who is worried by the financial pressures of repayment while still at a low share of profits will not make all the best contribution to his partners in terms of work. It is by no means uncommon for goodwill and capital to be paid to the outgoing partner over a period of years, and certainly there is a lot to be said for the incoming partner in making his borrowing a domestic rather than an outside operation.

Short-term finance

How can the impact be reduced for the new man and not at the expense of the retiring partner? Taxation can play a part in the answer, to a degree, and so can the use of economies such as we have already discussed. There is, of course, survivorship insurance (inter-locking cover protecting each partner against the death of his partners) which is clearly protective against the sudden demand to repay capital – or at least the moral duty to do so – and perhaps goodwill in some way or another.

In addition one should never underestimate the help of one's bank. Managers do understand the problems of financing a practice. By and large, they know that an accountant's balance sheet is fairly liquid and will do what they can in the current context of the banking situation, credit restrictions and so forth. They will also make personal loans to assist with equipment or cars where these are needed for business. Then there is the factoring of book debts. All these are sources of finance not only for the emergency but for revolving working capital.

To return to the problem of goodwill, there is good reason to attempt to kill the mystique which has grown up around this very personal asset. I believe that any partner now transferring a share in a partnership or even altering his share ratio under circumstances which give rise to a payment for goodwill is creating a situation not only where a liability to capital gains tax arises, but where goodwill as a disposable asset is being deliberately kept alive.

I believe that there is an element of true goodwill in the name of a large practice which acts for large clients and where there is a substantial and continuous organization but I believe that in most other practices the newcomer is only obtaining an introduction, and the theory of goodwill is unsound. Each partner contributes his own goodwill, and each member of the staff has his own goodwill too, if the truth be told. The value of professional goodwill is not like that of the shopkeeper setting out his wares in a shop window and attracting the passing trade: it depends upon a fiction of supply and demand, and the sooner the fiction is recognized as the thing it is, the better.

It is far better for the outgoing partner to select a partner whom he can trust to continue the practice on sound lines, so that he can gradually relinquish his duties and receive a fee for consultancy, thus allowing the new partner to replace his capital over a period as he withdraws it rather than to insist upon the payment to him of a goodwill which is vulnerable to tax and – because the availability of capital sums to young men and women has been curtailed by personal taxation – harder and harder to get.

Fees

Fees in partnership practice need more attention than in the sole practice, because each partner will be less likely to keep his eye on the bank balance than the man on his own does. I do not think that clients like receiving fees irregularly, and for jobs which occur annually I think the fee should be sent once a year on a date as near as possible the same, to include audit, accountancy and tax work.

In addition, a job which entails interim work justifies an interim fee. Special work also justifies a special fee, and if the timing of a special job is inconvenient or there is an undue element of specialist advice, then the fee should reflect this as well as the actual time spent. One practitioner I know has even received quite voluntarily from one of his clients the offer to pay fees for a regular service by means of a monthly standing order. However, one must be selective in which work justifies payments on these lines.

It is a mistake to think that clients will only be retained by cutting fees. Certainly no client relishes paying for unintelligent checking which is time-consuming and costly in fees, but he will usually pay for good personal service, particularly where care is taken to present information to him in an understandable form without undue delay. Here again, organization in the office is essential if jobs are not to be delayed and accounts and tax dealt with late as a habit, to the irritation of the client and at the expense of a permanently full desk of arrears.

The practitioner must also keep up to date with his professional knowledge. Larger firms can release partners to

attend courses and their partners can specialize. Many sole practitioners may be able to specialize in fields such as liquidation, taxation or management consultancy, but the vast majority are general practitioners and as such need not only to take specialist advice from consultants in the fields of taxation, management services and so on – and there are opportunities for 'consortium' arrangements in these fields – but also to form some loose association, which may be as loose as they wish, with others in similar positions, for the sharing of knowledge and even the lending of staff at times of emergency.

To those who say that they would like to do this, but do not know how to start, how to get to know their opposite numbers or how to find out if such an association would be a happy and fruitful one, the answer lies in the district societies of the Institute – either in some field of specialist interest such as a taxation discussion group or by becoming an active member of the society. This in itself keeps knowledge up to date; it also does much more, because practitioners meet and get to know one another and friendship grows.

Members may also remember the Institute's publication in November 1968 of 'Arrangements to cover the incapacity or death of a sole practitioner' (*The Accountant*, November 30th, 1968). Such arrangements may also become possible as a result of an introduction in a district society. Always remember that the district society exists to help you.

Co-operation within the profession

I mentioned staff sharing in times of need. If this can be arranged between firms who are friendly with one another, a further economy may be achieved in terms of salary overhead costs, in both offices.

Possibly, too, there is scope for sharing of office machines and, if location allows it, a common library of the more advanced technical reference books not in use every day. Even if these begin as purely financial economies for both firms, they may end in a close association which will allow both to take adequate time for the study and digestion of the mass of new knowledge which every practitioner in our profession needs to acquire every year. If there is concern that arrangements such as these are difficult because of the fact that one is in competition with the very people with whom we should have to share our own secrets and experiences, I can only say that my own experience in this area is that fellow-members are as honourable and as ethical as the most critical of us could ask. I have no doubt that someone some time will claim to have had a less fortunate experience, but I have yet to meet him.

The financial problems of a professional practice, though they exist, are not insurmountable. A great deal can be done by proper organization and even innovation. Perhaps one of the most important features of that organization is that it also creates a more effective service and a more efficient office, to the benefit of practitioner and client alike.

Transfer of Assets

by G. R. BRETTEN, M.A., LL.B.

Although prevention of avoidance to tax is the purpose of many of the provisions to be found in our tax legislation, it is seldom that this purpose is expressly acknowledged. A departure from this practice is, however, to be found in section 478 of the Taxes Act 1970, which by way of preamble frankly states its anti-avoidance purpose.

SECTION 478, which may be traced back to the Finance Act 1936, is in fact not only an obstacle but a deterrent to tax planning, for its terms are far-reaching and its consequences severe. Thus, in *Lord Howard de Walden v. CIR* (20 ATC 327, at page 329), Lord Greene, MR, commented that 'the section is a penal one, and its consequences, whatever they may be, are intended to be an effective deterrent which will put a stop to practices which the legislature considers to be against the public interest'. Yet his Lordship justified the provision by reflecting that 'it scarcely lies in the mouth of the taxpayer who plays with fire to complain of burnt fingers.'

It is the purpose here to examine section 478 in the light of reported decisions with a view to ascertaining precisely the conditions which must exist for the operation of the section and to defining its scope.

Charging conditions

It appears from the preamble that the charge to tax arises only with respect to individuals ordinarily resident in the UK. The term 'individual, is defined to include the husband or wife of the individual (section 478 (8) (*a*)); but 'wife' does not, according to *Vestey's Executors v. CIR* (28 ATC 89; 31 TC 1), include 'widow'. It logically follows that 'husband' should not be construed to include 'widower'.

The term 'individual', unlike the term 'person', is clearly intended to refer only to human beings and not

to include corporate entities. It is apparently not an essential condition of the charge that the individual should be ordinarily resident in the UK at the time the transaction (viz., the transfer of assets) which forms the basis of the charge took place (*CIR v. Herdman*) 49 ATC 1)). All that is required is that such individual should be ordinarily resident in the UK during the year for which the assessment under the section is made.

No charge may be made unless there has been a transfer of assets. While the heading of this chapter of the Taxes Act reads, 'Transfer of Assets Abroad', section 478 does not in fact require that the assets must be transferred abroad. Further, it is not material, as was made clear in *Congreve and Congreve v. CIR* (27 ATC 102, 30 TC 163), whether the transfer is made by the individual whom it is sought to charge under the section or by some other person. The word 'person' is used here advisedly, as there is no indication that transfers from corporate entities are to be disregarded. The legislature has not restricted the application of the section by defining for these purposes the terms 'assets' and 'transfer'. Subsection (8), however, extends the ordinary meaning of those terms by prescribing that 'assets' includes 'property or rights of any kind', and that, with respect to rights, 'transfer' includes 'the creation of those rights'.

Residence or domicil

The next prerequisite is that, by virtue or in consequence of the transfer of assets, income should become payable to a person resident or domiciled outside the UK. It suffices that income should become so payable as a consequence of the combined effect of such transfer and 'associated operations'.

The meaning of 'associated operations' for this purpose is considered below. The word 'payable' is to be given a wide, popular meaning, and does not necessarily signify that a suit for payment of the income could be maintained (*Latilla v. CIR*) 22 ATC 23)). Prima facie, 'income' in this context has its ordinary meaning for income tax purposes (*Aykroyd v. CIR* (21 ATC 284; 24 TC 515)), subject to its extension by section 478 (8) to include gains arising from the acquisition and disposal of chargeable assets which would properly be charged to tax under Schedule D Case VII. By reason of this provision such gains are to be treated as 'profits' from a trade of dealing in the assets'. (But see now Finance Bill 1971, clause 46.)

It is not necessary that the person resident or domiciled outside the UK to whom income becomes payable in consequence of a transfer of assets should have been so resident or domiciled at the time of the transfer; all that is required is residence or domicil outside the UK when such income becomes payable (*Congreve and Congreve v. CIR*). Further, where in accordance with this section income becomes payable to a company incorporated outside the UK, that company is to be treated as resident outside the UK irrespective of whether or not it is in fact so resident (section 478 (7)).

Charging event

The preamble to section 478, the terms of which have been considered above, prescribes the general conditions for the operation of the section. Reference must, however, be made to subsections (1) and (2) of that section in order to discover the circumstances which immediately give rise to the charge. Section 478 (1) deals with the case where an individual ordinarily resident in the UK has 'power to enjoy' income of a person resident or domiciled outside the UK.

An extended meaning is given to the phrase 'power to enjoy', and this is considered more fully below. Such income is treated as income of the UK resident for all purposes of the Income Tax Acts, and is chargeable to tax accordingly if (*a*) the power to enjoy arose in consequence of a transfer of assets, operating either alone or in conjunction with associated operations, and (*b*) the income is such that if it were actually received by the individual in the UK it would be chargeable to income tax by deduction or otherwise.

Under section 478 (2), the concept of 'power to enjoy' is replaced by the requirement that the UK resident individual should have received or be entitled to receive, whether before or after the transfer of assets, a capital sum, the payment of which must be in some way connected with the transfer or an associated operation. Income arising to a person resident or domiciled outside the UK is then to be treated as income of the UK resident for all tax purposes, provided that the income arises in consequence of the transfer of assets, operating either alone or in conjunction with associated operations. It is expressly provided that it is immaterial whether the income accruing to the person resident or domiciled outside the UK would or would not have been chargeable to income tax apart from the section.

Tax is charged by reference to the income accruing to the person resident or domiciled outside the UK, not by reference to the amount of the capital payment. For the purposes of this provision 'capital payment' is defined as (*a*) 'any sum paid or payable by way of loan', and (*b*) 'any other sum paid or payable otherwise than as income, being a sum which is not paid or payable for full consideration in money or money's worth' (section 478 (2)).

Associated operations

The term 'associated operations', even in the absence of extended statutory definition, is clearly susceptible to broad interpretation, and by reason of its lack of precision it creates difficulty for those who would seek to arrange their affairs so as to escape the operation of this provision. The phrase is defined in the statute as 'an operation of any kind effected by any person in relation to any of the assets transferred or any assets representing, whether directly or indirectly, any of the assets transferred, or to the income arising from any such assets, or to any assets representing directly or

indirectly, the accumulations of income arising from any such assets' (section 478 (4)). This statutory exercise in tracing assets is elaborated by section 478 (8), where it is enacted that 'references to assets representing assets, income or accumulations of income include references to shares in or obligations of any company to which, or obligations of any other person to whom, those assets, that income or those accumulations are or have been transferred'.

As will be apparent, the purpose of this definition is not so much to amplify the inherent significance of the term 'associated operations' as to prevent the frustration of the section merely by the device of converting the assets transferred, it being a fundamental requirement of the section that the operation must be effected in relation to those assets. Indeed, it was the failure to establish this relationship which accounted for the taxpayer's success in *Fynn v. CIR* (36 ATC 313; 37 TC 629).

The 'associated operation' need not be effected either by the individual whom it is sought to charge to tax or by the person resident or domiciled outside the UK to whom income accrues which is by reason of the section to be attributed to the UK resident. The cases confirm the amplitude of the definition. For instance, execution of a will (*Bambridge v. CIR*) 34 ATC 281; 36 TC 313)), reciprocal transfer of debentures (*Beatty's Executors v. CIR* (19 ATC 419; 23 TC 574)), and change of residence (*Congreve and Congreve v. CIR, supra*), have been characterized as 'associated operations'.

Power to enjoy

Section 478 (5) sets out a number of circumstances in which for the purposes of the section an individual is to be treated as having 'power to enjoy' income of another. This list of circumstances is followed by the direction in section 478 (6) that the matter is to be determined by reference to the 'substantial result and effect' of the transactions. Furthermore, all benefits accruing to the individual are to be taken into account whether or not he had any legal entitlement to such benefits. The circumstances set out in section 478 (5) are:

(*a*) where income of a person resident or domiciled outside the UK is so dealt with as to enure to the benefit of the UK resident;

(*b*) where the value of assets held by or for the benefit of the UK resident increases in consequence of the receipt or accrual of the income;

(*c*) where the UK resident receives or is entitled to receive any benefits provided for out of the income ('benefit' including 'a payment of any kind': section 478 (8) (*d*));

(*d*) where the UK resident has power to obtain for himself the beneficial enjoyment of the income or may become entitled to such enjoyment by reason of the exercise of any power by any other person; and

(*e*) where the UK resident is able directly or indirectly to control the application of the income.

Exempted transactions

It has already been commented that section 478 is overtly an anti-avoidance section aimed at defeating transactions designed to produce tax advantages for individuals ordinarily resident in the UK. It does not, however, necessarily affect every transaction involving a 'transfer of assets' within the meaning of the section which has tax consequences for such an individual. This is made plain in the section itself, for section 478 (3) expressly exempts transactions in respect of which it can be shown:

'(*a*) that the purpose of avoiding liability to taxation was not the purpose or one of the purposes for which the transfer or associated operations or any of them were effected; or

'(*b*) that the transfer and any associated operations were bona fide commercial transactions and were not designed for the purpose of avoiding liability to taxation'.

The differences between paragraphs (*a*) and (*b*) are not considerable, save that it appears that whereas in respect of a commercial transaction reliance may be placed upon either of the exempting conditions, where the transaction involved is of a non-commercial character only paragraph (*a*) will be applicable. The section clearly requires, as the decision in *Corbett's Executrices v. CIR* ((1943), 25 TC 305), confirms, that the onus of proof be on the individual claiming the benefit of the exemptions.

The essence of each of the exemptions is that the transaction should not have been motivated in any respect by the desire to avoid taxation (*Executors of W. S. Cottingham v. CIR* (17 ATC 407)). Although in its preamble the section refers specifically to the avoidance of income tax, it was held in *Sassoon v. CIR* ((1943), 25 TC 154), that the word 'taxation' should be liberally interpreted in favour of the Crown to include taxes other than income tax and, in particular, that it should include death duties.

Scott, LJ, reasoned (at page 158):

'Why [the Revenue] should be disposed to forgo taxation imposed by the section, whether income tax or surtax, in a case where the finding of the Commissioners is perfectly definite and final that the purpose was to avoid some other form of taxation, is beyond my understanding.'

The ruling that 'taxation' included estate duty was followed in the recent case of *Philippi v. CIR* (*The Accountant*, January 21st and March 25th, 1971); Ungoed-Thomas, J, remarking that the Court could hardly infer 'that a purpose of avoiding tax did not exist merely because it was not openly stated'. The taxpayer may derive some consolation from the fact that there has as yet been no suggestion that 'taxation' is to be construed as including other than UK taxes.

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Management Control Systems

by MICHAEL CLAY

The new science of cybernetics shows that the problems of control in any field of endeavour, any organism, any working group, indeed in any system, are essentially the same. In management thinking we have reached a transitional stage in which many of the younger managers and students are well aware of at least the elementary principles of control theory and their applicability to industrial and commercial problems, but also in which many of the older generation still feel that a management control can be equated with mere recording of some parameter or items of data.

IN considering the range of management techniques whose avowed objective is to control some aspect of industrial or commercial performance, we must recognize that we are concerned with two types of systems. Firstly there is the system over which it is desired to exercise control: this is called the *controlled system*, examples of which are quality (quality control), budgets (budgetary control), damage and accidents (damage control), and stocks or inventories (inventory control). In order to achieve control a separate system is created to find out what is happening, measure it, compare it with desired values, plan for any necessary change to bring actual and desired values closer and finally take action. The latter is called the *control system*, examples of which are given in brackets above, against the relevant controlled system.

Each item of work that is contained in a system is called an *element*. In the basic form of a controlled system there is one element the *process*, and two signals which transfer information or resources into or out of the system (the input and the output respectively).

A control system in its basic form has five elements, thus:

(1) The detection element – this finds out what is happening in the process or output.

(2) The evaluation element – this evaluates or measures present values in the process or the output.

(3) The specification element – this specifies the desired value against which to compare the actuals.

(4) The motorization element – this prepares the ground for action to bring actual and desired values closer together.

(5) The correction element – this takes action by exerting an influence usually on the input, but possibly on the process along the lines worked out by the motorization element.

These control/controlled systems can be permanent with desired values as constants (e.g. a budgeted fixed cost) with measurement and review at fixed frequencies (e.g., monthly), or they can be designed and operated as one-off ventures, e.g., to control the programme for a VIP visit. Again, they can be formally structured, with a written procedure and with responsibilities shared by many people, or they can be informally designed with a single person taking action when he sees fit to keep some variable roughly in the right place (e.g., the tidiness of a desk).

Special management techniques

The principal permanent and formal controls in business which are operated through the use of special management techniques are as follows:

Cash control;
Credit control;
Labour control;
Inventory control;
Quality control;
Production control;
Budgetary control;
Damage control;
Scrap control.

The five elements of a basic control system and the one element of the controlled system, with its accompanying input and output signals, are summarized for each of these control techniques in the table on page 670.

Desiderata for control

In considering the efficiency of a control system, one starts by identifying the individual elements and signals previously described and examining them in order to determine whether they cover the right variables and whether a sufficient degree of formal structure is incorporated to enable the control to operate routinely. In a credit control procedure, for example, one would check that an analysis of debtors' balances by age (part of the evaluation element) is actually issued as regularly

ELEMENTS OF COMMON INDUSTRIAL CONTROL SCHEMES

		Controlled system			Control system				
	Name of technique	*Input*	*Output*	*Process*	*Detection element*	*Evaluation element*	*Specification element*	*Motorization element*	*Correction element*
1	Cash control	Cash inflow	Cash outflow	Orders placed, sales orders received, other commitments	Accountant	Cash forecasting	Desired future cash balance	Plan to restore cash balance to desired level	Action to invest surplus funds, obtain overdraft, etc.
2	Credit control	Cash payments for goods sold	Supply of goods to customer	Manufacture and allocation of goods to meet customer's orders	Credit controller	Sales orders received; monthly debtor statements	Desired ratio of debtors; average daily sales	Plan to restore debtor ratio to desired value	Various. Pressure for payment, stopping future supplies, etc.
3	Labour control (numbers of staff employees)	Recruitment	Dismissals, resignations, retirements	Men at work	Personnel or other manager responsible	Lists of present strength, surpluses and shortages in staff	Establishment figures, modified as situations change	Plan to correct discrepancies between establishment and strength	Recruitment, natural wastage, etc.
4	Inventory control (finished goods)	Manufacturing or purchasing instructions	Amount and value of finished material put into stock	Production operations or purchase of merchanted goods	Storekeeper	Calculation of stocks, issues and receipts	Re-order levels and re-order quantities	ROQ loaded on a plant programme	Execution of the programme and topping-up stock
5	Quality control (raw materials)	Raw materials required	Raw materials supplied	Ordering system	Inspector	Testing procedure	Raw material specification	'Proposed action' sheet with result, e.g., return to supplier	Action carried out to return goods etc.
6	Production control (plant utilization)	Plant time available	Production programme	Plant time planned to be used for manufactured goods	Production controller	Proposed actual programme	Optimum programme	Planned adjustments to the first draft of the programme	Adjustments to the first draft
7	Budgetary control	Raw materials and services purchased	Sales achieved and the cost of production	Production and ancillary service operations	Costing clerk	Standard cost calculation sheets	Budgeted expenses, factored by activity level	Proposed actions on significant variances	Actions taken to prevent recurrence of variances
8	Damage control	Set of required tasks	Accidents and damage	Execution of the required tasks	Damage controller and line manager	Completed report form on damage incidents	Nil damage	Plan to prevent recurrence of the worst accidents	Execution of the plan, e.g., by installing a crash barrier
9	Scrap control (Maintenance and construction)	Maintenance and construction materials issued	Amount and value of scrap produced	Maintenance and construction operations	Salvage engineer's assistant	List of scrap for disposal and with actual outlets	Standard procedure for each type, e.g., re-use, sell	Plan to correct unprofitable disposal methods	Execution of the plan, e.g., arrange for increased use of second-hand material

The techniques listed are frequently applied to several variables.
Production control, for example, may be concerned with materials, plant and labour utilization.

and quickly as the procedure requires. But the mere confirmation that each element is present and working is only a starting point.

There are at least 11 other parameters that can vitally affect the performance of a control system. A description of each is given below with examples drawn from the nine formal control schemes elaborated in table 1.

1. Alarms

Whatever procedure exists for the periodic review of the process or output variables of the system, it is necessary to consider the problem of either sudden changes in conditions or overlooked gradual changes, either of which can produce a highly unsatisfactory or even dangerous condition. In terms of a production process, one might consider installing a klaxon horn in the control room, to be triggered off by a dangerously high reactor temperature or pressure, in addition to the routine display of temperature information and routine measures, manual or automatic, to control this variable. In general terms the system must be provided with alarms which attract the controller's attention to seriously unsatisfactory situations and conditions, however caused.

It will be obvious that one cannot inspect any technique, such as quality control, and say whether or not the installed alarms are adequate since these will be tailor-made to fit specific circumstances. One can only investigate particular applications of the technique to actual ranges of finished products or raw materials and pronounce upon the alarms of that application.

It can be extraordinarily difficult to introduce automatic alarms into managerial controls. In the case of raw material quality control, for example, the inspector may be lazy and not bothering to check all or some of the incoming consignments. One could introduce a partial alarm by marking in a suitable manner the items that have been inspected: the prospective user is then 'alarmed' if he tries to use material without inspection marks.

However, a failure in a managerial control is probably a failure of a person to carry out his part of the procedure, and the only completely satisfactory way of introducing an alarm is to use another person to check the work of the first operator. This raises several further problems; the checker may be regarded as a spy or, if not, the volume of work needed may force the system designer to rely upon sampling. For example, financial auditing procedures cannot guarantee to discover a petty cash embezzler since audit procedures are based on random sampling.

2. Safeguards

It is desirable to design safeguards into control systems to stop variables going out of control or to restrict their freedom outside a predetermined range. Aircraft throttles are sometimes designed so that normal full power is obtained by moving the throttles forward to a set of stops. Additional emergency power can be obtained by moving the throttle through a 'gate' but this cannot be done unless a special safety catch is removed.

Safeguards can be introduced as an extension of a alarm element in that the system automatically moves back to a safe condition instead of merely sounding an alarm. When a reactor temperature exceeds the safe level, intead of an alarm sounding it is possible to arrange for the steam heating to be automatically reduced, or the supply of feedstock to be shut off.

In the case of a budgetary control system it is very easy to introduce safeguards by restricting the freedom of managers to spend money by a scheme such as:

Up to	£9	Foreman can authorize;
£ 10–	£99	Department manager can authorize;
£100–	£999	Works manager can authorize;
£999–	£2,000	Any director;
Over	£2,000	The board of directors.

The buying department will check every purchase requisition to ensure that the authorization is valid.

A useful principle in designing safeguards is the fail-safe principle: this requires that if a component of a system fails or deteriorates in performance, it will move towards a safe rather than a dangerous condition. This again is very difficult to achieve in managerial controls.

In scrap control there may be a requirement for a dealer to remove one load of scrap per week. If he comes only in response to a written requisition and one forgets to send a requisition, the man will not arrive and the production line may stop due to congestion. If there is a standing arrangement for the dealer to arrive every Wednesday morning unless notified, no harm will be done other than the cost of a possible wasted journey. This latter arrangement satisfies the fail-safe principle.

3. Control limits

The definition of a control is a technique or device which aims to hold the value of a variable between two predetermined limits: one cannot hold a variable at an absolutely fixed level, but takes action to correct divergences of any defined magnitude. Thus an essential requirement in any control scheme is to define these working limits. The majority of the budgetary control schemes in operation do not do this: they have a single standard level and regard any departure from this (a variance) as unsatisfactory.

4. Speed of response

The control system must be designed so that corrections occur quickly enough to prevent the output variable drifting too far from the desired value. A credit control system which is based on expected payment at the end of the month following the dispatch month must be geared to a review at a frequency not less than once per month.

5. Drift

The rate at which the value of an output variable is likely to move away from a given value (the drift) is a feature of the controlled system, and one may not be able to control it: it is determined when the controlled system is designed. One needs to know the drift in order to design the right speed of response into the control system. Production is likely to vary significantly from plan on a daily or even an hourly basis and most production control progressing procedures must allow for review at least daily.

6. Quality

The quality of the control system with particular regard to its accuracy and reliability is of prime importance. The performance of the system can go badly awry if the control works efficiently only on 75 per cent of the occasions. In practice, this may depend upon whether the control personnel themselves are reliable, whether they are frequently absent, whether they become swamped by peak demand and whether the control procedure allows for the exceptional situations or only the norms.

Thus, a damage control system may require managers to report all incidents involving damage to property to the damage controller. If 10 per cent of the managers fail to do this, the whole system will quickly fall into disrepute.

7. Sensitivity

It is desirable that the detection and other elements should be able to identify and respond to small changes in output values. But, if they cause control actions to occur for every minute divergence, the whole system will be constantly in a state of flux, which is undesirable. The sensitivity of the control loop is therefore of considerable importance and there are equal dangers in making the control system too sensitive or too insensitive.

Ideally, one would like a greater sensitivity in detection and evaluation than in motorization and correction. In other words, one likes to know what is going on but one only takes action when a deviation is sufficiently great to warrant it. In a budgetary control system one must not call managers to task for adverse variances of £s if standards are set in £10,000s.

8. Stability

This is the tendency to resist change. As far as the controlled system is concerned it is the converse of drift and has, therefore, already been considered. With regard to the control system, one wants it to continue to operate despite a variety of external pressures and problems. If the workload increases or people fall sick or the records are changed, one wants the system to continue to operate efficiently. A raw material quality control procedure must be capable of dealing with deliveries at nights and at week-ends, when the normal situation is week-day deliveries.

9. Flexibility

The requirements of any managerial control scheme can be expected to vary from time to time. A credit control procedure, for example, becomes of considerably greater importance in periods when there is a tendency for industry as a whole to delay payments as a result of generally reduced profitability and liquidity. The credit control scheme should be readily amenable to modifications to meet these changed needs.

10. Resource utilization

Many of the above requirements can be met by installing an extremely sophisticated and expensive control scheme with elaborate records and highly qualified personnel. Clearly, control schemes are not exempt from the cost/benefit principle against which every industrial and commercial operation should be tested. The design of a control scheme must, therefore, be a compromise between the ideal and the basic minimum standard that is tolerable.

11. Service

Part of the overall concept of efficiency is that of service to the user. Several aspects of this have already been described. It needs to be emphasized, however, that the needs of the people who carry overall responsibility for the system must be a paramount consideration.

The system manager may want only a summary of deviations, or he may want quick, approximate data rather than slow, accurate data; he may want a verbal or a written report at a particular time each week or he may want no information at all unless there are significant deviations to report (the 'exception' principle). It is highly unsatisfactory for the control scheme designer to create a system which is not in harmony with the managers' needs.

Efficiency of existing controls

The majority of business control schemes were not designed by people who were expert in systems or control theory. Consequently, if one were to test any specific scheme against the principles of good design described it is reasonable to expect that one would find potential areas for improvement.

However, the efficiency of the scheme also depends upon an inherent property of the so-called controlled variable which has not yet been discussed. Some variables are much more difficult to control than others, and some should properly be referred to as partially-controlled variables. Credit and cash, for example, are much more difficult to control than damage, since many of the important decisions (e.g., whether to pay now or later) are made by people outside the boundaries of the system being controlled.

Of course, one must still make every effort to impose as much control as is feasible and the situation needs. In some cases too much is just as bad as too little control.

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For years – for the past decade in fact – insurance company chairmen in their annual reports have had to comment on underwriting losses, moves made towards improved efficiency and the need to review premiums and policies. All these factors combined to provide the driving force for the major mergers which characterized the insurance industry in the 1960s.

Commercial Union

Commercial Union, from whose 1970 accounts this week's reprint is taken, was not one of the leaders of the 1960's merger movement but it did take into its organization the Northern and Employers group which had been formed in 1960 by the merger of the Northern Assurance Company and the Employers' Liability Assurance Corporation.

The notes to the accounts have not been reprinted; instead, space is given to the historical reviews of premiums, underwriting results, investment income, assets and earnings, and also to the summary of profits, premium income and underwriting results with which the report and accounts open. As it happens, there is nothing in the notes of any great moment.

Trading profit, it is stated, is arrived at after movement in the extreme weather provision, which is explained in the directors' report and excludes items normally credited and charged to reserves – mainly profits on sale of investments less tax thereon. The directors' report reminds shareholders that at the end of 1969 an extreme weather provision of £7·7 million was established so as to eliminate fluctuations in future underwriting results due to extreme weather conditions, including major hurricanes, arising in any one year.

The following table show the movements in the account in 1970:

	£ million	£ million
Provisions at December 31st, 1969 ..		7·7
1970 charge	3·6	
Less Claims incurred in 1970 including Hurricane Celia	4·9	
	−1·3	
Taxation recoverable thereon ..	·6	
		− ·7
Provision at December 31st		£7·0

The charge to be made in the 1971 accounts is estimated at £4·3 million, based on the average experience from extreme weather during the six months to December 31st, 1970, weighted to allow for inflation.

US business

Commercial Union's United States business is pooled with that of Employers Group Associates of Boston, Massachusetts. The premium income of the pool in 1970 was $527 million, which was $50 million more than in 1969, and the statutory underwriting loss increased by $500,000 to $25·3 million – an improvement in general results being offset by an increase of $2·1 million to $8·5 million in hurricane losses.

Over the past two years a substantial amount of substandard business in the United States has been cancelled and the integration of the US business of Commercial Union and Northern & Employees has been completed, with economies achieved. The expense ratio was reduced by two points to 32·5 per cent last year and the aim is to achieve a ratio of 31 per cent at the most in 1971, and below 30 per cent thereafter. A material improvement in US results is anticipated.

Inflation problem

The ten-year record shows how difficult it has been for Commercial Union to improve underwriting results, despite a sharply rising premium income over the past decade. As the directors' report comments: 'Inflation continues to be the biggest single problem facing insurers today.' The principal means of overcoming this is by raising premium rates soon enough to meet increased claims costs and expenses as they develop. This entails the collation of more meaningful statistics and having them available more quickly and more frequently than in the past.

But rate increases are not the only remedy. It is necessary

to secure the co-operation of policy-holders – industrial, commercial or private – to take all practical steps to guard against fires, burglaries and accidents. Commercial Union has set up an advisory department concerned with preventive and precautionary measures, particularly with a view to reducing hazards that technological advances inevitably bring. 'It is', the directors comment, 'possible to offer some financial inducement if maximum use is made of these recommended measures and devices.'

In times when inflation was at an acceptable rate and when company law and Stock Exchange requirements were not as demanding as they are now, an insurance company's accounts seemed to be an exercise in defiance rather than in information.

Times have changed for the worse in so far as inflation is concerned, but materially for the better from the aspect of insurance company account presentation. The clarity of Commercial Union's accounts is particularly commendable, right through from the coloured photo cover of a view of the company's new head office skyscraper block from the Thames.

Commercial Union, it should be noted, led the rescue of World Auxiliary, the V. & G. subsidiary. Commercial Union's chairman, Mr Ronald Brooks, said at the recent annual meeting that the rescue move 'has done much to restore the permanent damage that would have been done to our business and that of the London market generally had the World Auxiliary been allowed to go into liquidation without meeting its liabilities.'

Charterhouse Group

THE Charterhouse Group, whatever its clever advertising may say, is a mixture of bank, finance company and industrial holding group in the UK, plus an industrial and finance organization in Canada. The 1970 accounts are presented on the basis of internal structural changes which acknowledge the mixture.

All UK financial companies have been transferred to a new wholly-owned subsidiary – the Charterhouse Finance Corporation – thus, in the words of the directors' report, 'creating a financial leg analogous to that already existing in the form of Charterhouse Industries although no cleavage between the two is implied'. Corporate inter-relationship means added strength, it is claimed.

In the presentation of the group accounts, the sources of profit are related to the activities of Charterhouse Industries, Charterhouse Finance Corporation and Charterhouse Group, Canada – the latter being a direct group subsidiary.

The accounting records of the Finance Corporation, however, have to be separately maintained by its subsidiaries for various reasons. The group's debenture stock is secured on the assets of the development subsidiary which is part of the Finance Corporation, the tax status of subsidiaries differs and, as a matter of principle, depositors' funds lodged with the banking subsidiary are not employed in non-banking group activities. That principle will continue to require a separate banking subsidiary within the Finance Corporation.

In the group profit and loss account, profits are separately stated at the head of the account: 'Industrial' £2,793,000; 'Financial and banking (after transfer to inner reserve)' £2,095,000; 'Canada' (£46,000) – there being a loss – and there is a deduction of £1,076,000 for unallocated central expenses and net interest (including £1,105,000 interest payable by The Charterhouse Group) leading to pre-tax profit of £3,766,000.

COMMERCIAL UNION ASSURANCE COMPANY LIMITED

Summary of Profits, Dividends and Appropriations for 1970

	1970 £m	1969 £m
Investment income	32.9	25.7
Life Assurance Profits	2.8	2.2
Underwriting Loss	4.2	4.0
Trading Profit	31.5	23.9
Less Loan and Minority Interests	5.9	2.4
Profit before Taxation	25.6	21.5
Less Taxation, after taking account of relief to Schedule F of £3.1m (*£3.1m*)	7.4	5.5
Profit after Taxation	18.2	16.0
Dividends		
Preference	.1	.1
Ordinary including recommended final of 10.25p per share. Total for year 1970 15.25 (*14.17p*)	13.4	12.4
	13.5	12.5
Added to Reserves	4.7	3.5
	18.2	16.0

Earnings per share were 20.67p (*18.22p*) of which 15.25p (*14.17p*) per share has been allocated for **Dividend**

Premium Income and **Underwriting Results** by major territory were:—

	PREMIUM INCOME					UNDERWRITING RESULTS	
	Fire £m.	Motor £m.	Other Accident £m.	1970 Total £m.	*1969 Total £m.*	1970 £m.	*1969 £m.*
United Kingdom including Ireland	25.0	18.0	26.7	69.7	*62.1*	2.5	2.6
United States	54.7	53.3	47.3	155.3	*139.9*	–7.2	*–7.5*
Canada	6.6	14.5	4.9	26.0	*24.4*	.8	*– .9*
Australia	7.0	8.6	9.0	24.6	*23.2*	.2	*.2*
Western Europe	8.4	14.8	8.1	31.3	*27.5*	–1.4	*.1*
Other Overseas	10.3	9.2	12.2	31.7	*26.6*	– .1	*1.3*
	112.0	118.4	108.2	338.6	*303.7*	–5.2	*–4.2*
Reinsurance, worldwide				17.1	*17.1*	– .1	*– .2*
Marine and Aviation, worldwide				33.8	*23.9*	1.1	*.4*
				389.5	*344.7*	–4.2	*–4.0*

AUDITORS' REPORT

to the Members of the Commercial Union Assurance Company Limited

We report on the accounts set out on pages 10 to 15 which include those of certain subsidiaries made up to dates other than 31st December, 1970.

In our opinion, based on our examination and the reports of the auditors of certain subsidiaries not audited by us the accounts, including the balance sheets and revenue account of the life funds set out on pages 10 and 13, comply with the provisions of the Companies Acts, 1948 and 1967 applicable to insurance companies.

COOPER BROTHERS & CO.,
Chartered Accountants

LONDON, 3th March 1971

Grampian

GRAMPIAN HOLDINGS, the Scottish industrial holding group, is currently the subject of takeover attention and the background to that attention is shown clearly in Grampian's 1970 accounts. On turnover of £36·5 million against £32·15 million, Grampian's 1970 pre-tax profits were £990,424 against £1,301,909: although six divisions of the group improved their earnings, this could not offset a loss of close on £773,700 suffered by the construction division on a turnover of £9·8 million.

Mr David C. Greig, chairman since May 1970, states that substantial trouble in the construction division became evident early in the year. To put things right, major new appointments were made in the division, but 'the difficulties of reversing an unco-ordinated expansion were considerable and, in an industry with an inherently long time-scale, the operation took longer than we anticipated, so that the second half-year showed a loss of £354,713 which was only slightly less than that of the first half.'

By the end of 1970, however, most of the unfavourable contracts were running out and the scale of operations was being reduced. Mr Greig, reporting the appointment of a new group chief executive at the beginning of this year, tells shareholders that 'strengthening of management and review and adjustment of control systems and of capital deployment are going forward throughout the group.'

CONSOLIDATED REVENUE ACCOUNTS

for the year ended 31st December, 1970

COMMERCIAL UNION ASSURANCE COMPANY LIMITED AND SUBSIDIARIES

Note		1970 £m	1969 £m
	Fire and Accident		
	Premiums written, less reinsurance	355.7	32.08
2	Transfer to Unearned Premiums	6.2	3.0
	Premiums earned	349.5	317.8
	Claims incurred	235.4	210.8
	Commission	60.6	57.2
	Expenses	58.8	54.2
		354.8	322.2
	Transfer to Consolidated Profit and Loss Account	5.3 (loss)	4.4 (loss)
		349.5	317.8
	Marine and Aviation		
	Premiums	33.8	23.9
	Claims paid	20.5	17.9
	Expenses	2.6	2.2
	Amount added to Funds	9.6	3.4
		32.7	23.5
	Transfer to Consolidated Profit and Loss Account	1.1 (profit)	.4 (profit)
		33.8	23.9
	Life		
	Premiums, less reassurance	67.0	56.1
	Consideration for immediate annuities	7.2	7.7
	Investment income (gross)	36.5	32.8
5B	Release of Investment Reserve	3.3	5.0
		114.0	101.6
	Claims and Surrenders	36.1	31.2
	Annuities	10.2	8.9
	Commission and Expenses	10.7	8.4
	Taxation	5.5	4.8
	Shareholders' profits	4.3	.1
15C	Amount added to Funds	47.2	48.2
		114.0	101.6

The notes and signatures on pages 14 and 15 [not reproduced] are an integral part of these Accounts

CONSOLIDATED PROFIT & LOSS ACCOUNT

for the year ended 31st December, 1970

COMMERCIAL UNION ASSURANCE COMPANY LIMITED AND SUBSIDIARIES

Note			1970 £m		1969 £m
7B	Investment income		32.9		25.7
3C	Life Assurance Profits		2.8		2.2
			35.7		27.9
	Underwriting Results—				
	Fire and Accident	5.3 (loss)		4.4 (loss)	
	Marine and Aviation	1.1 (profit)		.4 (profit)	
		—	4.2 (loss)	—	4.0 (loss)
5A	**Trading Profit**		31.5		23.9
6B	Loan Interest		5.4		2.0
	Minorities		.5		.4
			5.9		2.4
3C	**Profit before Taxation**		25.6		21.5
3A	Taxation on profits after taking account of relief to Schedule F of £3.1m (£3.1m)		7.4		5.5
15A	**Profit after Taxation**		18.2		16.0
	Dividend and Appropriations				
	Preference for 1970 (gross)		.1		
	Ordinary for 1970 (gross)				
	Ordinary Shares:				
	Interim, paid November 1970, at 5.00p (5.00p)		4.4		4.4
	Proposed Final at 10.25p (9.17p)		9.0		8.0
4B	'A' Ordinary Shares		—		—
			13.5		12.5
	Added to Reserves		4.7		3.5
			18.2		16.0

The notes and signatures on pages 14 and 15 [not reproduced] are an integral part of this Account

BALANCE SHEETS (EXCLUDING LIFE ASSURANCE)
at 31st December, 1970

COMMERCIAL UNION ASSURANCE COMPANY LIMITED AND SUBSIDIARIES

Note		Consolidated 1970 £m	Consolidated 1969 £m	Parent Company 1970 £m	Parent Company 1969 £m
1	**Capital and Reserves**				
4	Share Capital	24.4	24.3	24.4	24.3
	Share Premium	8.4	8.4	8.4	8.4
5A	Retained Profits and Reserves	59.7	54.3	42.6	34.4
	Shareholders' Funds	92.5	87.0	75.4	67.1
	represented by:—				
	Investments at cost and at valuation				
	United Kingdom Government	27.4	29.6	19.3	14.7
	Commonwealth Government	18.3	17.0	2.8	2.4
	Foreign Government	93.6	73.7	4.0	3.5
	Debentures	134.7	101.2	3.8	3.1
	Preference	23.6	25.8	14.0	11.6
8	Ordinary	138.2	131.2	51.8	43.6
		435.8	378.5	95.7	78.9
	Deposit Accounts	50.5	32.0	29.2	8.1
	Mortgages and Loans	40.7	19.5	21.8	6.0
	Freehold and Leasehold Property	36.3	33.1	15.0	13.0
		563.3	463.1	161.7	106.0
9A	*Interest in Subsidiaries*	—	—	89.6	91.2
	Current Assets				
	Agents and Companies	137.4	138.3	49.8	47.0
	Bank Balances	15.7	16.1	4.3	2.5
		153.1	154.4	54.1	49.5
	Total Assets	716.4	617.5	305.4	246.7
	Less **Liabilities and Provisions**				
3B	U.K. and Overseas Taxation	5.4	7.7	6.3	6.8
	Outstanding Claims and Provisions	242.2	217.7	42.7	39.4
	Marine and Aviation Funds	40.2	30.6	29.3	22.5
5A	Extreme Weather Provision	7.0	7.7	7.0	7.7
	Agents and Companies	62.4	62.6	32.0	29.6
7A	Bank Loans	2.7	2.7	2.7	2.7
	Minority Interests	4.2	3.9	—	—
	Proposed Final Ordinary dividend (gross)	9.0	8.0	9.0	8.0
		373.1	340.9	129.0	116.7
		343.3	276.6	176.4	130.0
2	*Less* **Unearned Premiums**	150.7	144.9	32.4	30.5
		192.6	131.7	144.0	99.5
6A	*Less* **Loan Capital**	27.4	27.4	27.4	27.4
	Other Loans	72.7	17.3	41.2	5.0
		100.1	44.7	68.6	32.4
	Shareholders' Funds	92.5	87.0	75.4	67.1

The notes and signatures on pages 14 and 15 [not reproduced] are an integral part of these Balance Sheets

BALANCE SHEETS – LIFE ASSURANCE
at 31st December, 1970

COMMERCIAL UNION ASSURANCE COMPANY LIMITED AND SUBSIDIARIES

Note		Consolidated 1970 £m	Consolidated 1969 £m	Commercial Union Life Fund 1970 £m	Commercial Union Life Fund 1969 £m	Northern Non Par Life Fund 1970 £m	Northern Non Par Life Fund 1969 £m	Other 1970 £m	Other 1969 £m
				(As defined in the Directors' Report)					
1	**Life Assurance Funds**	565.1	517.4	312.1	282.4	146.1	141.1	106.9	93.9
	represented by:—								
	Investments at cost and at valuation								
	United Kingdom Government	87.2	85.7	59.6	57.3	19.6	21.3	8.0	7.1
	Commonwealth Government	15.9	13.8	1.3	1.6	.7	1.0	13.9	11.2
	Foreign Government	5.9	5.6	.4	.5	.2	.2	5.3	4.9
	Debentures	105.6	112.3	64.3	68.0	26.4	30.5	14.9	13.8
	Preference	9.7	10.1	.6	.5	8.8	9.1	.3	.5
8B	Ordinary	122.2	112.2	56.2	51.2	35.9	35.6	30.1	25.4
		346.5	339.7	182.4	179.1	91.6	97.7	72.5	62.9
	Deposit Accounts	16.7	18.8	10.0	9.8	1.7	5.7	5.0	3.3
	Mortgages and Loans	144.2	110.3	68.0	52.2	49.0	31.8	27.2	26.3
	Freehold and Leasehold Property	47.6	39.8	40.8	35.3	2.9	2.5	3.9	2.0
		555.0	508.6	301.2	276.4	145.2	137.7	108.6	94.5
	Less Reserve	—	1.3	—	.3	—	.9	—	.1
		555.0	507.3	301.2	276.1	145.2	136.8	108.6	94.4
	Current Assets								
	Agents and Companies	19.7	16.6	15.2	9.1	2.3	4.8	2.2	2.7
	Bank Balances	1.6	2.4	.9	1.2	.4	.5	.3	.7
		21.3	19.0	16.1	10.3	2.7	5.3	2.5	3.4
	Total Assets	576.3	526.3	317.3	286.4	147.9	142.1	111.1	97.8
	Less **Liabilities**								
	Outstanding Claims	1.8	2.0	.9	1.2	.1	.1	.8	.7
	Agents and Companies	9.4	6.9	4.3	2.8	1.7	.9	3.4	3.2
		11.2	8.9	5.2	4.0	1.8	1.0	4.2	3.9
15C	**Life Assurance Funds**	565.1	517.4	312.1	282.4	146.1	141.1	106.9	93.9

The notes and signatures on pages 14 and 15 [not reproduced] are an integral part of these Balance Sheets

TEN YEAR TERRITORIAL REVIEW

COMMERCIAL UNION ASSURANCE COMPANY LIMITED AND SUBSIDIARIES

Note	Year ended 31st December	1970 £m	1969 £m	1968 £m	1967 £m	1966 £m	1965 £m	1964 £m	1963 £m	1962 £m	1961 £m
A	**Premiums, less reinsurance** (*excluding Life*)										
	United Kingdom and Ireland	69.7	62.1	59.9	38.7	36.8	33.8	32.8	29.7	28.2	27.4
	United States	155.3	139.9	135.6	61.0	50.4	45.3	41.6	40.3	46.2	46.1
	Canada	26.0	24.4	23.1	12.8	10.4	9.1	7.6	6.9	7.0	7.3
	Australia	24.6	23.2	21.6	16.3	13.1	12.5	11.4	10.6	10.2	8.3
	Western Europe	31.3	27.5	24.5	15.7	12.1	9.2	8.6	9.0	8.2	7.1
	Other Overseas	31.7	26.6	23.1	10.6	9.3	11.8	10.8	8.3	8.3	7.7
	Reinsurance, worldwide	17.1	17.1	16.1	9.0	8.2	8.2	7.0	6.2	6.2	6.5
	Marine and Aviation, worldwide	33.8	23.9	24.0	8.8	7.0	6.5	6.0	5.5	5.4	5.4
		389.5	344.7	327.9	172.9	147.3	136.4	125.8	116.5	119.7	115.8
	Underwriting Result										
	United Kingdom and Ireland	2.5	2.6	.1	2.0	−.4	.6	—	−4.1	−3.9	−1.6
	United States	−7.2	−7.5	−8.7	−2.8	−1.7	−3.4	−4.1	−3.1	−2.9	−3.7
	Canada	.8	−.9	1.0	1.0	.8	.3	−.4	−1.0	.2	.3
	Australia	.2	.2	.7	−.1	.2	.1	.3	−.2	—	.2
	Western Europe	−1.4	.1	.1	−.7	−.1	−.4	−.5	−.6	−.3	.1
	Other Overseas	−.1	1.3	1.6	1.1	.3	1.4	.6	.6	.9	.7
	Reinsurance, worldwide	−.1	−.2	−.3	.4	−.2	−.6	−.6	−.6	−.6	−.1
	Marine and Aviation, worldwide	1.1	.4	—	—	—	.2	.5	.5	.9	.8
		−4.2	−4.0	−5.5	.9	−1.1	−1.8	−4.2	−8.5	−5.7	−3.3
	Investment Income										
	United Kingdom and Ireland (including Reinsurance, Marine and Aviation)	8.9	7.2	6.4	4.1	3.8	3.7	3.7	3.6	3.9	3.8
	United States	12.3	11.5	10.9	5.4	4.4	4.2	3.4	3.3	3.2	3.0
	Canada	2.9	2.3	2.0	.9	.7	.6	.5	.5	.5	.5
	Australia	1.9	1.7	1.5	1.2	.9	.8	.7	.7	.5	.3
	Western Europe	2.3	1.6	1.5	1.0	.7	.6	.6	.5	.4	.4
	Other Overseas	1.3	1.3	.8	.6	.6	.6	.9	.8	.8	.8
B	Other Sources	3.3	.1	—	—	—	—	—	—	—	—
		32.9	25.7	23.1	13.2	11.1	10.5	9.8	9.4	9.3	8.8
A	**Trading Profit**										
	United Kingdom and Ireland (including Reinsurance, Marine and Aviation)	12.4	10.0	6.2	6.5	3.2	3.9	3.6	−.6	.3	2.9
	United States	5.1	4.0	2.2	2.6	2.7	.8	−.7	.2	.3	−.7
	Canada	3.7	1.4	3.0	1.9	1.5	.9	.1	−.5	.7	.8
	Australia	2.1	1.9	2.2	1.1	1.1	.9	1.0	.5	.5	.5
	Western Europe	.9	1.7	1.6	.3	.6	.2	.1	−.1	.1	.5
	Other Overseas	1.2	2.6	2.4	1.7	.9	2.0	1.5	1.4	1.7	1.5
	Other Sources	3.3	.1	—	—	—	—	—	—	—	—
		28.7	21.7	17.6	14.1	10.0	8.7	5.6	.9	3.6	5.5
	Life Assurance Profit (principally United Kingdom)	2.8	2.2	2.2	.9	.6	.6	.6	.7	.3	.3
		31.5	23.9	19.8	15.0	10.6	9.3	6.2	1.6	3.9	5.8
B	*Less* Loan Interest and Minorities	5.9	2.4	2.2	.3	.3	.2	.2	.2	.1	.1
	Profit before Taxation	25.6	21.5	17.6	14.7	10.3	9.1	6.0	1.4	3.8	5.7
A	Taxation	7.4	5.5	4.1	5.2	3.1	2.4	2.8	−.7	.7	2.5
	Profit available to Shareholders	18.2	16.0	13.5	9.5	7.2	6.7	3.2	2.1	3.1	3.2
A	**Cost of Dividends**	13.5	12.5	11.5	7.1	6.4	6.4	3.8	3.9	3.9	3.9
	Added to Reserves	4.7	3.5	2.0	2.4	.8	.3	−.6	−1.8	−.8	−.7

COMMERCIAL UNION ASSURANCE COMPANY LIMITED AND SUBSIDIARIES

Note	Year ended 31st December	1970 £m	1969 £m	1968 £m	1967 £m	1966 £m	1965 £m	1964 £m	1963 £m	1962 £m	1961 £m
	Net Assets attributable to Shareholders	92.5	87.0	86.4	66.5	58.7	60.8	60.8	59.3	56.4	56.5
	Less Preference Capital	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
	Net Assets attributable to Ordinary Shareholders	90.7	85.2	84.6	64.7	56.9	59.0	59.0	57.5	54.6	54.7
C	*Add* Excess of Market Values of Investments over Book Values, before allowing for taxation thereon	59.0	65.7	99.4	62.2	45.7	52.4	49.3	48.6	44.4	47.4
		149.7	150.9	184.0	126.9	102.6	111.4	108.3	106.1	99.0	102.1
D	*Less* Estimated provision for unfunded pension liabilities	—	—	—	4.4	14.2	14.2	11.2	10.2	9.6	9.5
E	**Net Value attributable to Ordinary Shareholders** (*excluding Life*)	149.7	150.9	184.0	122.5	88.4	97.2	97.1	95.9	89.4	92.6

Amounts per Ordinary and 'A' Ordinary Share (in decimal currency)

Note		1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
		£	£	£	£	£	£	£	£	£	£
E	**Net Value** (*excluding Life*)	1·65	1·67	2·04	2·08	1·50	1·73	1·73	1·71	1·59	1·65
	Average Market Price (London)	2·99	2·96	2·98	2·38	2·23	2·10	2·21	2·42	2·75	3·47
		p	p	p	p	p	p	p	p	p	p
F	**Earnings** (*excluding 'A' Ordinary*)	20·67	18·22	15·39	16·89	12·83	11·94	———	(*Note*	F)	———
	Gross Dividend	15.25	14.17	12.92	12.50	11.25	11.25	11.25	11.25	11.25	11.25

NOTES

A Premiums, Trading Profit, Cost of Dividends and Net Assets attributable to Shareholders, included in this Ten Year Territorial Review, have been taken from the audited accounts of the Company and its subsidiaries. Taxation comprises taxation on profits for each year in the audited accounts and from 1965 onwards is after deducting therefrom relief to Schedule F Income Tax on dividends paid, including relief arising from Life business. Also from 1965 the cost of dividends is the gross cost.

B Other Sources of Investment Income comprise income from the investment of the proceeds of the Unsecured Dollar Borrowings, and Loan Interest includes the cost of servicing these loans.

C The market value of Investments is made up of Stock Exchange values at 31st December for quoted investments and Directors' valuations for the remaining investments. The excess of market values over book values, when realised, will attract Corporation Tax. No Dollar premium has been included, as it is largely inapplicable.

D These represent the amounts not provided for past service pension liabilities (excluding liabilities in the United States) at these dates.

E The Net Values attributable to Ordinary Shareholders and per Ordinary Share both exclude any capital value in respect of Life Profits, which currently amount to £2.8m. per annum. No further taxation is payable on these Life Profits.

F The earnings per ordinary share for years prior to 1965 have not been quantified because the method of assessing taxes in those years was not comparable with the current basis.

CITY NOTES

THIS week the City was given a glimpse of two societies – the permissive and the repressive. The Bank of England's statement on what is going to be the new pattern of monetary control was undoubtedly a shaker, particularly for those City institutions which, relying on the retention of controls, continually preach the need for freedom and competition.

To find the Bank of England stating that controls are going to be whipped away and that the gilt-edged market is going to become a no-holds-barred affair of supply and demand inevitably made some parts of the City recoil from the very idea of market freedom. The Bank of England's statement was, of course, merely a matter of suggestion and a basis for further discussion between the banks and City institutions in general.

But having called for freedom so often the City cannot, to save its face, spurn freedom when it is offered. The clearing banks, for example, have long participated in the debate on the interest rate 'cartel' and have hummed and hawed and made much of the fact that the last Conservative Government was not favourably disposed to change.

But now the Bank of England has said that the cartel should go, along with the whole of the present control structure. There is no cartel case now.

* * * *

THE Bank of England has also closed another favourite City debate on the subject of the difference between clearing bank and merchant bank. With both kinds of banks busily doing each other's kind of business, the distinction is becoming blurred, but in its infinite wisdom the Bank of England has solved the problem by putting merchant banks and other money institutions into the same new control formula as the clearing banks.

Perhaps the only point that has marred the clean-sweep review is that the Government has been tardy to act on the recommendations of the Crowther Committee on consumer credit. Had the Government taken the recommended action of doing away with the differences between hire-purchase finance and other forms of consumer credit, the Bank of England could have gone even further still towards offering the City a startling amount of operational freedom.

* * * *

THE view of the other society came from the Labour Party's typically guarded and suspicious decision to put on its agenda a review of City institutions to see if 'City institutions, as at present existing, best serve the interests of the country'.

That is part of a general review of financial and economic matters and international finance. Mr James Callaghan said that special account would be taken of the disturbances of the last three years in the world money markets which have harmed the development of international trade and inhibited the growth of developing countries. Devaluation of sterling, which took place when Mr Callaghan was Chancellor of the Exchequer, is nicely outside 'the last three years'.

* * * *

AS Secretary of State for Trade, Mr John Davies is second only to the Chancellor of the Exchequer as the politician most concerned with the City. No doubt the change from industrialist to politician that Mr Davies has achieved has been well made, but the City – and industry – could certainly do without some of Mr Davies's more robust pronouncements. His political colleagues were still trying, this week, to explain what Mr Davies meant last Friday in Edinburgh on the matter of tariffs on imported cars. It appears that although Mr Davies said that the Government is considering abolition of the tariff, the Government is in fact not 'actively' considering it. What it really means is that this is a subject talked about but unlikely to be acted on, but Mr Davies has failed as yet to acquire the correct political way of saying this kind of thing.

RATES AND PRICES

Closing prices, Tuesday, May 18th, 1971

Tax Reserve Certificates: (26.4.71) Companies 4½%; 2½% surrendered for cash; Personal 4%

Bank Rate

Nov. 9, 1967	6½%	Feb. 27, 1969	8%
Nov. 18, 1967	8%	Mar. 5, 1970	7½%
Mar. 21, 1968	7½%	April 15, 1970	7%
Sept. 19, 1968	7%	April 1, 1971	6%

Finance House Base Rate – May 1st, 1971. 7½%

Treasury Bills

Mar. 12	£6·6659%	April 16	£5·7561%
Mar. 19	£6·6416%	April 23	£5·7081%
Mar. 26	£6·6242%	April 30	£5·6844%
April 2	£5·8293%	May 7	£5·6840%
April 8	£5·7849%	May 14	£5·6517%

Money Rates

Day to day	5⅜–6%	*Bank Bills*	
7 days	4¼–6%	2 months	7–7⅛%
Fine Trade Bills		3 months	7–7⅛%
3 months	7½–8%	4 months	7–7⅛%
4 months	7½–8%	6 months	7 1/16–7 3/16%
6 months	7¾–8%		

Foreign Exchanges

New York	2·4193	Frankfurt	8·5350
Montreal	2·4404	Milan	1505·25
Amsterdam	8·5600	Oslo	17·1875
Brussels	120·04	Paris	13·3750
Copenhagen	18·1350	Zürich	9·8750

Gilt-edged

Consols 4%	43¾	Funding 6½% 85–87	81
Consols 2½%	27	Savings 3% 65–75	87⅝
Conversion 3½%	37¾	Treasury 9% 1994	95¼
Conversion 5¼% 1974	96⅛	Treasury 6½% 1976	97¾
Conversion 6% 1972	99 15/16	Treasury 3½% 77–80	73¾
Funding 3½% 99–04	45¼	Treasury 3½% 79–81	72¾
Funding 4% 60–90	97½	Treasury 5% 86–89	66
Funding 5¼% 78–80	83	Treasury 5½% 08–12	62¼
Funding 5½% 82–84	80¼	Treasury 2½%	27
Funding 5¾% 87–91	71	Victory 4%	96½
Funding 6% 1993	71	War Loan 3½%	37¼

COMPUTER COMMENTARY

British Computer Society's Drive for Competency

WHATEVER might be the views of those in the computer industry about 'professionalization', Mr Alex d'Agapeyeff, F.C.A., F.B.C.S., President of the British Computer Society, stated recently in London that the Society intended to be heard in many areas of importance, whether they be in business or public affairs. Professions should be able to speak with one voice on a particular issue, but in order for the Society to do so on behalf of the electronic data processing sphere, Mr d'Agapeyeff emphasizes that its membership must be fully representative of all who work in this field: at present this is not the case. A campaign has therefore been launched to increase significantly membership of the BCS over the next three years – compatible, of course, with the maintenance of standards.

Mr Maurice Ashill, F.C.A., F.B.C.S., the Society's Secretary-General, and Mr Frank Hinde, F.B.C.S., Chairman of the Recruitment Committee, want data processing managers to lend their support by specifying to new staff that BCS membership, necessitating the passing of the Society's examinations, is a desirable qualification. There are at present approximately 400 corporate members and, with the support of the 500 'top' companies engaged in EDP, this figure could be easily doubled.

Mr d'Agapeyeff has often observed publicly that the consequences of computing mistakes can be very serious,

Mr Alex d'Agapayeff (*left*) and Mr Maurice Ashill.

and in his view 'this does not seem to be widely recognized because most people prefer to ignore unpleasant possibilities, rather than face them'. This endorses his insistence that computing must be treated as a profession, and that those engaged in it must show that they care about the consequences of their work, and be prepared to accept responsibility for it. The BCS have already made the decision *inter se* to be an 'active, professional and national Society' – not to be solely concerned with techniques and adopting a neutral or passive attitude to the impact that computing is having on society at large.

The computer itself has had a somewhat turbulent history. Originally a scientific calculating machine known only to a few, it is now a ubiquitous device handling information crucial to diverse operations of government departments; for controlling and monitoring air traffic; for the distribution of goods; and the running of continuous process plants – matters that affect everyone. What is so serious is that lives themselves could be affected: a programming mistake, an operating error, faulty data, or equipment failure could contribute to a major economic or industrial calamity or might even result in loss of life. Certainly something should be done positively to make the public aware of these dangers, to effect adequate safeguards, and make independent assessments of computer installations which may affect the welfare of the community.

A more effective industry

Up to comparatively recently, computing has been a wide open industry developing at an explosive rate in the lush conditions of an excessive demand competing for limited resources, and under such conditions efficiency can seldom flourish. The result has been that poor applications and shoddy workmanship, produced by improperly trained or casual staff, have proliferated. The subsequent harsher trading conditions caused by a hardening of the market should remove some of this avoirdupois of incompetence, so that computing should emerge more effectively and efficiently manned. Naturally, it is those who survive by competency that the BCS wants to attract.

With the external examinations that the Society has established and its 'Code of Conduct' which it will maintain by a disciplinary procedure for members who transgress it, and the drive to have a member on every computer 'site', there is no doubt that the BCS is doing its best to eradicate the impression that the word 'computing' is a euphemism for mistakes.

Preventing Errors

A SMALL electronic desk-top machine called a check digit generator has been introduced by Rank ENM to help eliminate human errors which cause computers to 'make mistakes'. No special skill is required in using it as anyone can master the simple keyboard and error indication system within a few minutes.

Wrong account or reference numbers are avoided by adding to each number an extra 'check' digit, so that if the computer is programmed to recognize the number and its associated check digit, a wrongly set-down number will not be processed and attention is drawn to it. The check

digit generator can compute check digits within milliseconds for keyed-in numbers of up to fourteen figures.

Rental is £14 per month. Rank ENM, Adam House, 1 Fitzroy Square, London W1P 6DS.

The Rank ENM Check Digit Generator being used to generate check digits for rate reference numbers, mortgage reference numbers and for sundry account numbers in the Borough Treasurer's Department at Poole Corporation.

Accountancy and Computing

IN a paper on 'Data processing – some current problems', at a recent seminar organized by the Liverpool Society of Chartered Accountants, Mr A. R. K. Hardcastle, F.C.A., director and general manager, Computer Analysts and Programmers Ltd, observed that accountancy and computing had already affected each other considerably and that the ensuing ten years would see more fruitful interaction between the two vocations. Accountancy, in his view, gave rise to two demands: (*a*) for selected information suitable for management decisions, and (*b*) for variations of that selected information to meet supplementary inquiries, often at short notice.

Computers, he continued, were excellent devices for selection but despite all the work which had been done on the problem of providing specially selected information on demand, management was quite often left with an uncomfortable inflexibility in available facilities. Most dangerous of all, he stressed, was the temptation to overprovide information to management, and he recalled a real-life assignment where identical monthly reports were referred to by the accountant as 'the most comprehensive product line profit information available in any division in the group', whereas the managing director's comments were 'this pile of unreadable rubbish which is dumped on my desk every month'.

On the topic of auditing, Mr Hardcastle considered that the public acceptance of accountants in this capacity was likely to be adversely affected because consultancies had undertaken substantial work on systems creation for clients whose financial accounts were audited by a parent or related firm of the consultancy. He could not see how the public would believe indefinitely that an auditor could or should have to report upon a system in the profits or prestige of which he and his partners shared.

Mr Hardcastle ventured to suggest that as the use of computing developed, the doubts as to the suitability of the accountancy function as a home for computing became more pronounced, making it increasingly clear that a management services group of some sort must be created which would be independent of the operating departments, and would report to the chief executive. This would give rise to a picture of a financial executive cut off from direct control of the computing operation upon which he should be so dependent. But it might, nevertheless, have the effect of making him focus his attention on the adequacy of controls before he entrusted his data to the new system. Mr Hardcastle argued that this, in its turn, might induce the accountant or executive to consider how other departments viewed the matter of financial recording, and a greater partnership between accountancy and computing could arise.

Progress and Compatibility

MENTION of International Computers is almost synonymous with their '1900' and 'Series 4' products. So as to preserve continuity, ICL recently announced an extension of the 1900 range – the 'S' series – which is more powerful in processing capacity and more sophisticated technologically, but, nevertheless, is compatible with any other machine in the range.

The new series consists of four processors – the 1906S, 1904S, 1903S and 1902S – together with ancillary hardware, software equipment and packages. Indeed, the series would seem to be a package in itself as it comprises a comprehensive operating system with automatic job scheduling and control, different method of assembling and presenting information and of communicating with the computer, five new compilers, and, of course, the new processors.

An important element in the 'package' is the 1900 data base management system (with a storage device if required) which ensures that information is forthcoming in the form in which it is needed. This facility, with the option of two new languages, a faster and more flexible terminal, and the ability of any machine in the 1900 range to communicate with another, should enable programs to be speeded up and developed, giving overall increased data handling capabilities for the benefit of users.

For seven years 1900 machines have been installed in many large-scale EDP operations, and they have been developed smoothly and in step with the increasing needs of customers for additional facilities; the recent Queen's Award to Industry indicates that ICL has not only kept pace with customers' needs over the years, but also with technological progress. As Mr Peter Ellis, assistant managing director, stated recently in London: 'Since 1964 we have not only added a new 1900 range – known as the 1900S Series – but we have replaced, over the period, practically every ancillary device and software package which was included in the original 1964 announcement with something more advanced and more effective.'

Univac Popularity

OFTEN it is wondered by the laity of the computer world – and this can include accountants – if particular industries lend themselves to specific hardware and to standard systems. At the opening earlier this year of Univac House in London, announcements were made of new orders from various types of businesses for Univac machines. For example, Evans Outsizes upgraded their 9300 to a

9400 because of continued rapid growth in the company's operations which now cover 78 retail stores and a separate mail order business.

Ling Dynamics, a leading manufacturer of vibration testing systems, has been influenced by the availability of suitable application packages to purchase a Univac 9200 computer system. This system will process packages to help Ling plan and control its factory production and also to handle an integrated accounting system previously carried out on an IBM 6400 visible record computer.

In an entirely different trade, Schwarzkopf Ltd, the international hairdresser supplies and toiletry manufacturers, have up-graded their Univac 9200 to the more powerful 9300. The system is to be expanded this year with communications facilities to handle a data recognition document reader and Univac DCT 500 terminals which will be sited at the company's delivery depots. Schwarzkopf will then be able to process customers' orders immediately on receipt of the salesman's order form and print the dispatch order on site at the appropriate delivery depot.

Letters

Institute Annual General Meeting

SIR, – I attended the annual general meeting of the Institute on May 12th, 1971, but, owing to the very lengthy remarks offered by some of those present, both on the platform and off it, I felt that it would be an unwarranted intrusion upon the time of the members who had been good enough to come to deal with all the matters to which I would like to refer.

Whilst I appreciate that, so far as certain of the matters are concerned they will have been finally dealt with at the meeting, for example, the setting of new entry standards for the profession, I would like to seek the courtesy of your columns to record at greater length than I felt was proper at the meeting my views upon matters under consideration at the meeting, in the hope that they might be of interest to those members – the great majority – who were not present.

Entry standards for the profession

In the first place, I would refer to entry standards for the profession, limiting entry to the profession to individuals who have obtained at least five passes in subjects acceptable to the Council in the examination for the General Certificate of Education, including not less than two such passes at advanced level.

On page 7 of the Institute *Newsletter* for April 1971 is set out a table comparing the registrations of articles in the two years 1969 and 1970. As a footnote to the table, attention is drawn to the fact that the percentage of entrants with two 'A' levels or higher standard in the 12 months to December 1970 had risen to 73·7 per cent from 70·1 per cent the previous year. It is not stressed that in both these years more than one-quarter of the entrants were drawn from 'O' level and one 'A' level candidates. No information is given as to the ages of the candidates and the last statistics which were, I think, published on the matter indicated that 'O' level candidates aged 15, 16 or 18 formed a not insubstantial part of those coming forward in this grade and showed better examination results – for what examination results are worth as a criterion of competence as an accountant.

It is all too likely that a substantial number, especially of the younger 'O' level candidates, would be boys of intelligence and keenness, who, either because their parents cannot afford it or because they do not wish to stay longer at school, do not take 'A' level subjects. On the other hand, not infrequently a number of those who do take 'A' level subjects have struggled on to do so and possibly have taken them at an age when they would have been better employed in gaining practical experience. The statistics offered for our consideration are inadequate.

In my view, the profession will lose a number of good candidates by this change, and almost certainly they – and others like them – will seek membership of other bodies outside the Institute, which I think is regrettable.

Purely as a side glance at the same subject, it is worth nothing that in the year 1970 the Institute spent a net sum of £55,427 on recruitment, against £39,946 in the previous year. It seems a pity to narrow the channels of recruitment, and at the same time to spend increasing sums of money on trying to get more recruits.

I recall having read somewhere that careers masters at schools tend to regard accountancy as an 'O' level profession. Our policies should not be dictated by schoolmasters whose ignorance upon the subject is probably as great as that of any person who has no direct contact with it and knows little or nothing about any profession. The followers of an academic career are always likely to discount other than academic careers – especially those which, like accountancy, have a strongly commercial and business bias.

I understand that the ultimate objective of the change in entry requirements is to obtain a predominantly, or even exclusively, graduate entry. This I believe to be even more mistaken than the change now proposed to an exclusively 'A' level entry. Current trends in schools may well result in substantial reductions in the number of 'O' level school leavers, and in the employment market may well result in greater pressure from graduates to enter the profession. Why should we, therefore, exclude the good 'O' level candidates if, in any event, these would-be entrants of the future are likely to be more and more predominantly 'A' level and graduate candidates?

Compulsory initial courses for articled clerks

I turn next to the proposal to make a nine months' classroom course a condition precedent to taking articles.

As long ago as March 6th, 1963, the then President, the

late Percy Carpenter, at a meeting of the Institute said, referring to this question of providing courses at the beginning of articled service: 'This provision does no more than enable the Council in due course to place a bye-law before members to prescribe attendance at such courses. There is no intention whatever to take such a step until the fullest investigations have been completed and experimental courses have been conducted on a voluntary basis.' In a letter of February 14th, 1967, I asked that the Council should put before members of the Institute any evidence which had become available since the President had spoken, including the outcome of the experiments then in course, and I added the hope that, in that evidence, the readiness of local authorities to give financial support would not be given undue weight.

Since that time I have repeatedly asked for the evidence upon which the Council justifies its persistence in working towards the imposition of these classes without publishing any evidence whatever as to the efficacy of the experimental classes so far undertaken. Information as to the success or otherwise of graduates is seldom divulged in a form which shows the proportion of graduates who have taken one or other of the special degree courses for accountants. Such information as I have seen – and it is all well out of date – would seem to indicate that the special degree candidates, who, of course, will have had more classroom tuition in accounting than almost any other variety of entrant, are far from uniformly successful. In fact, the last information I saw published indicated that, in examination results, they barely outstripped the 'A' level schoolboys.

I would be the first to admit that it is difficult to obtain effective evidence upon this point but, so far as I am aware, the Council has made no attempt to do so or, if it has, to publish it. From such evidence as I have had before me I am very doubtful indeed that these classes are of any real value.

Accounting standards

I have done my best to study the proposals so far issued and I find it difficult to regard any of them with particular enthusiasm. I have an uneasy feeling that their authors are divided between putting up proposals which will please investment analysts and not displease their clients, and that these proposals tend to be designed to meet the somewhat irresponsible criticism of the profession which is offered largely from academic circles. I hate to use unkind catch-phrases but there is an old saying that 'those who can, do and those who can't, teach'. I know no reason why we should regard the utterances of academic accountants as of any special merit.

Communication

Quoting from the President's statement, 'the constitution of the Institute, including the machinery for appointment to the Council and to local members' and students' organizations, is being reviewed'. There has also been a subsequent statement by the Council upon the subject, published in the issue of *The Accountant* of April 29th, 1971.

In a letter which I wrote on August 21st, 1970, and which *The Accountant* was good enough to publish shortly after that date [August 27th], I said that the failure of the ill-conceived integration scheme indicated the existence of a gap between the Council and the generality of members – and hoped that serious steps would be taken to close that gap.

Persevering with proposals which are without evidential justification, whether or not members like them, seems to indicate that the gap which was disclosed by the integration failure is still unclosed and that the Council, or some of its members, still persist in pressing proposals which are not desired by many members.

I do not recall how long it is since the election of a member or members to the Council was a matter of general vote in a general meeting, but I may well not be aware of the latest occasion, if ever, when there was a contested election. Council members tend, almost always, to retire in mid-term; their successors are first co-opted by the Council, and then put up for re-election at the next general meeting. This practice must, somehow or other, be stopped if elections are to be genuinely democratic.

On the other hand, no doubt Institute votes – like those of the trade unions, with whom we do not court comparison – show a grave degree of apathy, and a representative vote, with a body as numerous as the Institute, will hardly be obtained at a general meeting attended by a mere fraction. However, I would say, without wishing to be unduly harsh, that the present methods of election are such as to set up what is very nearly, if not quite, what *The Accountant* – that patient and unquestioning supporter of the Council – called, in the issue to which I have referred, a 'self-perpetuating oligarchy', and this may be the reason why the views of the Council are so often out of touch with those of the generality of members. The integration scheme, in particular, was pressed to the point of a signal defeat by a mustering of the opinion of the membership, when, for once in a way, over half the members voted upon a matter of major importance.

I would not wish to appear unappreciative of the merits and labours of those who sit on the Council, but rather doubt the extent to which they are genuinely in touch with the feelings of the rank and file of members, and how far, once in the Council chamber, they may find themselves subject to pressures which they are unable to resist.

The interpolation of postal ballots in the electoral process will not make the methods of election to the Council more effectively democratic, if the process of continual co-options is not ended. I should be sorry if, even so far as only some Council members are concerned, the words of Oliver Cromwell may become really applicable – 'It is not fit you should sit here any longer. . . . You shall now give place to better men.'

As regards the first of these points – entry standards – the President was good enough to say that he just did not agree with me. I can recall no reason offered for his disagreement. Must I assume that 'there's none so blind as those that won't see'? If so, 'shall the blind lead the blind?' – with the normal consequence.

Yours faithfully,

London EC2. H. O. H. COULSON.

[We regret that, in the time and space available, we were unable to report more fully in last week's issue the views of Mr Coulson, and also of others who spoke at the annual meeting. We are much amused by Mr Coulson's quizzical comments about a 'patient and unquestioning supporter of the Council'. – *Editor.*]

STUDENT ROUNDABOUT

ACASS Schools of Account

An Infeasibility Study

by PETER R. PENNINGTON LEGH,
Chairman, Reading Branch, London CASS

FOLLOWING change within its ambit, a body can be guilty of two major crimes; firstly, not reacting to the change and secondly, misdirected action. ACASS, to a certain extent represented by the Education Board, has been guilty in the question of schools of account of the second crime, primarily by grossly misrepresenting the basic factors and in gaining a national endorsement (approval by acquiescence) subsequently submitted to the Institute as the opinion of the student body in general.

In consequence, considerable effort is being expended to justify on a regional basis what is the proverbial square peg in the hope that a hole will somehow be found to accommodate it. What is regrettable is that almost any alternative would be an improvement on the present structure, and, of course, the feasibility studies will find a need for schools of account, if they look hard enough; but I question that schools of account are the basket in which we should put all our eggs as ACASS are suggesting.

However, for the purposes of this article, I will concentrate on questioning the basis of the proposal, the accuracy of its compilation and the manner in which it was submitted and accepted.

What kind of tutorials?

It is unclear what tuitional basis the 'schools' would employ and perhaps this fundamental matter should have been evident from the outset to enable worth-while comparison. Does the Education Board envisage the 100 students on each of the six courses being lectured to *en masse*, or is a more tutorial relationship to prevail? Similarly, no indication is given whether courses are to be intensive study or of a revisional nature.

If we make certain fairly safe assumptions we shall see that the nine-hour tuitional day pursued by the independent establishments would, in a five-day week, require the provision of 45 hours of class coverage even if we exclude the additional pressures of a tutorial system and the administrative burden. Where are ACASS going to find one highly experienced, one experienced and three trainee supermen to cope with this herculean curriculum?

High standards – low salary

The architects of the cost schedule exhibit a marked ignorance of current salary scales and of the utilization and employment of personnel. The kind of extensive and thorough tuition provided by the private establishments and presumably intended to be provided by these 'schools' demands an exceptionally high calibre of staff. Similarly, the staff employed would be faced with an ever-widening range of examination subjects with ever-increasing academic standards, yet five tutors are considered sufficient, three of whom are trainees.

The level of salaries included in the schedule would mean that the trainees would have only one or two years' post-qualification experience and be of the type now engaged in the public sector as junior lecturers; the experienced tutor earning £3,000 would be a senior lecturer who had reached a promotion block, whilst the very experienced tutor would be of senior standard in the public sector yet would not, I venture to suggest, get a look in at Caer Rhun or elsewhere.

It is obvious, if we assume that all tutors will be expected to teach on intensive courses for 48 weeks in the year, that not only the salaries envisaged but also the conditions of service would be less attractive than those that already exist in the public sector. On the subject of personnel, I can summarize by saying that the conditions, promotion prospects and remuneration provided by the costing of the proposal are poor by comparison with even the public sector.

Continuing on the subject of staff, for I feel that this is a factor which has been badly presented, it seems questionable whether it would prove possible to attract suitable personnel unless their prime motivation was salary. All this talk about people in the profession having sabbatical years or taking time off is so much hot air. We must rely on professional education and academics, and provide facilities and conditions accordingly. For example, salaries have to be attractive enough to encourage accountants to become tutors or to tempt tutors from the private sector.

Another matter totally omitted from the proposals is the administrative burden inevitably falling on the shoulders of the tutors. No provision whatsoever is made for the amount of time, effort and cost which, according to a principal of an educational establishment, occupies a material proportion of his time, the time of his staff and the resources of the concern. Other notable omissions from the schedule include the costs of preparing and reproducing study material, books, periodicals, telephone charges, heating and power, travelling, staff superannuation and many other expenses. Or am I being pedantic about the fact that these items total to a considerable sum and seem to have been omitted for the sake of arithmetical convenience?

Ignorance of developments

The future examination structure was not referred to, although the first tentative ideas may alleviate to a large extent the present anomalous situation regarding dates and the fact that under the proposals, unless Parts I and II are run concurrently, one of the groups would have had their eight-week course two months before the examination. Also, the nine-month

course is not provided for, or do ACASS feel that its introduction will prove abortive?

It might have been advisable to have taken a leaf out of our rivals' book, and let's face it, we are competing for some nebulous professional claim to superiority. The proposals did not incorporate any comparative study or acknowledge the existence of the systems in business schools, accounting departments in universities, or comment on the educational structure of the Law Society. Any form of perspective would have been welcome.

Perhaps the architects would like to exhibit their faith in the proposals by submitting the blue print to the principals of a cross section of private and public sector educational establishments and seek criticism. At the same time it could be inquired if they think that schools of account are a threat to their livelihood and a realistic alternative to correspondence courses and the tuition facilities they offer.

National system condemned

An admirable hypothesis the proposals may be, but where is consideration given to the problem of setting up a whole national educational structure dealing with nearly 20,000 students taking three examinations every four years and going on two eight-week courses and one course of nine months, yet making no provision for day-release nor in any way providing an alternative to the correspondence course? And as if all this isn't enough, they condemn a national system, albeit an inefficient and inequitable one, and tell the student societies to do feasibility studies on the adequacy of their own education.

I would refer the reader to the Ormerod Committee's report to the Law Society which provides for technical education in sponsored faculties with the academic side being covered by graduate entry. Do, by comparison, the members of the Education Board see beyond the end of their respective professional noses? They correctly defined the problem but in determining the answer have lost sight of the intention.

Other alternatives

You can talk of working parties, pre-professional education, feasibility studies and schools of account until the cows come home, but it does not make the proposals more palatable.

As the redoubtable Mr W. M. Allen, secretary of the Institute's Education Committee intimates, schools of account – yes! But not at the expense of other alternatives, and there *are* other alternatives and it is the responsibility of the Education Board to provide the impetus for these to be investigated and compared, or is it the same old problem of all force and no direction?

ACASS WELCOMES NEW ENTRY STANDARDS

COMMENTING on the 86·5 per cent vote in favour of raising the standard of entry for articled clerks at last week's special meeting of the Institute, David Gilks, secretary of ACASS, told 'Roundabout' that ACASS welcomes the decision.

The new requirement of two 'A' levels will, he said, ensure that the intake to the Institute will keep pace with recent trends in education. He believes that the strong vote for change sets the tone for standards for all future articled clerks – a matter on which ACASS is very concerned.

HULL'S NEW RULES

CERTAIN alterations to the rules, including the alteration of the year-end to December 31st to fall in line with the Institute's wishes and the allowance of proxy votes at AGMs and special meetings, were among measures adopted at the annual general meeting of the Hull CASS held on April 27th.

The meeting was presided over by the President, Mr K. P. Helm, F.C.A., who, commenting on the changes, said how much he welcomed them: the present rules were outdated and not geared to the growth of the Society – the old rules, he believed, were drawn up over 50 years ago!

He reported that the Society had had a good year in the examination field, and presented awards to John Briggs and Alan Hart, both November 1970 prize winners, and Geoff Smith, a May 1970 prize winner. He also presented awards to John Clarke, captain of the winning team in the investment game, and David Robinson, captain of the team which won the non-computer business exercise.

Mr Brian Atkinson, A.C.A., the retiring chairman, reported on the year's activities, which included an interesting lecture programme, an investment game spread over six months, a non-computer business exercise, and a series of dances and sporting fixtures. Mr Atkinson thanked the committee for their support during his year of office and expressed the hope that they would continue to show an interest in the Society.

In particular, he expressed his thanks to Andrew Perry, secretary, and Danny Gesua, treasurer, both of whom retired from the committee after two active years; and Alistair Dales, press officer.

New Chairman

Mr Colin R. Palmer, B.SC., A.C.A., was elected chairman of the Society. Educated at Hymers College, Hull and University of Leicester, where he obtained an honours degree in mathematics, he afterwards spent a year in London with an insurance company. He joined Hodgson, Harris and Co, of Hull, in 1965, and was admitted to membership of the Institute in 1969.

His main outside interest, when business commitments permit, is golf, and he is also an active member of the Hull Junior Chamber of Commerce and his old boys' association.

Mr Palmer expresses his formula for a thriving students' society as being 'the striking of a happy equilibrium between educational and social activities'.

Other officers elected for 1971–72:

Secretary: S. P. Brennan, c/o Hodgson, Harris & Co, Bank Chambers, Parliament Street, Hull. Telephone 39611.
Treasurer: B. Burt.

LEICESTER'S MAY MELTING POT

DESCRIBED as one of the best events happening in the social calendar of the Leicestershire and Northamptonshire CASS this summer will be the May Melting Pot Annual Dance due to take place on Thursday next, May 27th, at the Penny Farthing Club.

Commencing at 8 p.m., there will be a 'late bar' until 2 a.m. The few remaining tickets, price £2 double or £1 single, are available from firms' representatives, the Society's secretary, Ashwin Patel, c/o Thornton Baker, 8 West Walk, Princess Road, or Miss Helen Simms, c/o Pannell Fitzpatrick & Co, 4 Horsefair Street, Leicester.

ICL Visit Postponed

Members of the Society are asked to note that the visit to ICL's offices in

London which was to have taken place on Friday, June 11th, has been postponed until September due to reorganization at ICL.

LIAISON COMMITTEE MEETING

AT a recent meeting of the Students' Liaison Committee held at Chartered Accountants' Hall, it was evident from the discussion of a salary survey requested at the last ACASS conference, that there were considerable variations throughout England and Wales. More research on actual figures was required and it was left to ACASS to liaise with the Institute secretariat on the form the salary survey should take.

In discussing recruitment into the profession, it was acknowledged by the Institute representatives at the meeting that much help had been given by articled clerks. It was considered that assistance at local level through exhibitions and at school events was the most effective way in which articled clerks could help in obtaining more entrants to the profession.

On the subject of 'The future chartered accountant', the Institute's opinion on the extent of the future role of the chartered accountant was discussed, together with plans the Institute have for possibly introducing a two-tier profession as set out in the integration proposals.

FULL-TIME SECRETARY FOR ACASS

ACASS have appointed their first full-time secretary, who is Miss Barbara Worth. She is fully fitted for the task having taken social studies at London University and further education in Canada, where she subsequently worked for six years in television, radio and press. In London, Miss Worth's experience includes public relations work and research writing in the publishing field, administrative work in the director's office of the British Museum and administrative experience with University College, London.

Miss Worth has travelled extensively and in 1957–58 toured the world: she sailed from Vancouver to New Zealand, where she spent six weeks 'walking round', then went to Australia for two months and afterwards visited 15 countries, including a Mediterranean tour.

Apart from the administrative work she will undertake for ACASS, the new secretary sees her role as a vital liaison link between students and the Institute, and students and the professional press where communication has been lacking in the past.

LETTER TO ROUNDABOUT

Positive Opinions Wanted

From the Chairman of the ACASS Education Committee

SIR, – I was most pleased to see that E. J. King, in his letter to 'Student Roundabout' (April 29th), expressed views on student education. There are two points, however, on which I must comment.

Firstly, consultation. There have been five conferences in the last two years at which students from all parts of the country have debated education. The motions from these conferences expressing extreme dissatisfaction with correspondence courses, together with continual lobbying of executive members at meetings and functions throughout the country, finally compelled ACASS to act. That action has taken the form of organizing committees to consult students and all other interested sectors at a local level; the interim findings of such committees will be presented and debated at the Education Council on June 11th–12th. That will be the information and those will be the opinions on which the executive, and we hope the Institute, will be seen to act.

The London Students' Society is soon to circulate a most extensive questionnaire to its 10,000 or so members requesting information on all aspects of the students' individual educational programmes and their assessments of the various types of education. Similar surveys are being carried out in other parts of the country.

Secondly, his point on correspondence courses. The fact that 75 per cent of students still take out these courses inevitably means that many such students will pass their exams. I, personally, 'swotted' for a few hours to gain success in Part I, but feel that this reflects the type of exam rather than a good system of education. We are aiming for better education, not just ways of passing exams.

I look forward to receiving positive opinions from students, and hope that many will take their views to their local investigating committees before the next Education Council on June 11th–12th.

Yours faithfully,
BILL DORMAN.
CHAIRMAN, ACASS
EDUCATION COMMITTEE.

Leicester.

Some of the guests and members of the committee of the Manchester CASS who attended the Society's annual dinner, reported under 'Roundabout' on May 6th. *Left to right:* Messrs P. I. Bowick, committee member; R. H. Stewart, M.A., F.C.A., Vice-President of the Society; J. Whitehead, F.C.A., a member of the Council of the Institute; F. A. Sherring, F.C.A., President, Manchester Society of Chartered Accountants; G. R. Deakin, F.C.A., President of the Society; Alderman G. M. Joplin, J.P., Mayor, City of Salford, A. H. Walton, F.C.A., Deputy-President of the Institute, and A. J. Sutton, A.C.A., Chairman of the Society. The dinner was attended by some 360 members and guests.

Notes and Notices

PROFESSIONAL NOTICES

BEER, APLIN & CO, Chartered Accountants, of 17 Southernhay West, Exeter, announce the admission to the partnership of Mr T. A. W. GREGORY, A.C.A., with effect from May 1st, 1971.

BUZZACOTT, LILLYWHITE & CO, VINCENT & GOODRICH and WATSON O'REGAN & CO, practising at 99 St Paul's Churchyard, London EC4M 8AH, announce the merger of their practices with DOWN, KILNER & CO, of 22 City Road, London EC1, as from May 1st, 1971. The new firm will practise under the style of BUZZACOTT, VINCENT, WATSON, KILNER & CO, initially at the two existing addresses. The respective telephone numbers will remain unchanged. The partners will be Messrs D. T. U. WATSON, F.C.A., T. A. A. KILNER, F.C.A., M. D. B. O'REGAN, F.C.A., C. A. M. COXE, A.C.A., R. G. VINCENT, B.A., A.C.A., L. A. AUSTIN, F.C.A., A. J. SAICH, A.C.A., and G. R. MANNING, A.C.A. Mr P. A. C. VINCENT, F.C.A., and Mr R. C. MUNDAY, F.C.A., will act as consultants to the firm.

BUZZACOTT, VINCENT, WATSON, KILNER & CO, Chartered Accountants, of 99 St Paul's Churchyard, London EC4M 8AH, and 22 City Road, London EC1, announce that they have formed an association with LEACH, JOHNSON, TRAVIS & CO, Chartered Accountants, of 32 Kennedy Street, Manchester M2 4BR, as from May 1st, 1971. Mr J. R. N. TRAVIS, F.C.A., will become a partner of the London firm.

HESLOP & SON, Chartered Accountants, of 4 Woodland Road, Darlington, announce that Mr JEFFREY P. CAWSON, A.C.A., has joined the firm as a partner from May 1st, 1971. The practice will continue to be carried on at this address under the style of HESLOP & SON.

MANN JUDD & CO, Chartered Accountants, announce the merger of their practice with the Bristol practice of COX WHITE & CO, with effect from May 1st, 1971. The amalgamated firm will practise under the style MANN JUDD & CO from 28 Baldwin Street, Bristol.

MANN JUDD & CO, of 8 Frederick's Place, Old Jewry, London EC2, announce that Mr DAVID LANCH, A.C.A., has been admitted to the partnership with effect from May 1st, 1971.

MANN JUDD MARCH & CO announce the following retirements from their partnerships: Dartford office, T. D. JENKINS, F.C.A.; Newport office, W. V. MEACOCK, F.C.A.; London office, J. B. SIDFORD, F.C.A.

ROBSON, RHODES & CO (formerly BLACKBURNS, ROBSON, COATES & CO and FORD, RHODES, WILLIAMS & CO) and TRIBE, CLARKE, PAINTER, DARTON & CO, London, and IMPEY GARLAND & CO, Birmingham, and W. H. SHAW & SONS, Dewsbury, jointly announce, following their association in recent years, the completion of their amalgamation from May 1st, 1971, and that they will continue the amalgamated practice in the name of ROBSON, RHODES & CO at London, Leeds, Manchester, Bradford, Birmingham and Dewsbury, the names of the former firms also continuing in use for the time being where appropriate.

ROBSON, RHODES & CO announce also that on that date the following partners of associated firms became partners of ROBSON, RHODES & CO: Messrs MICHAEL B. LLOYD, F.C.A., and LESLIE A. DIXON, F.C.A., in Birmingham; and J. PETER BLAKE, F.C.A., and JAMES S. CULLEN, A.C.A., in Dewsbury; that Mr MALCOLM K. HARDY, A.C.A., in London, Messrs ROBERT J. BARRACLOUGH, A.C.A., and CHRISTOPHER W. TURNER, B.COM., A.C.A., in Bradford, and Mr W. DENIS CLAY, F.C.A., in Manchester, all of whom are senior members of staff at the respective offices, were admitted into partnership; and that Mr THOMAS H. BURDON, F.C.A., retired after 32 years' service at the London and Bradford offices.

APPOINTMENTS

Mr D. E. Lewis, A.I.M.T.A., formerly assistant chief accountant of Lewisham Borough Council, London, has been appointed chief accountant.

Mr John Boss, A.C.A., financial controller of Adcock & Shipley, has joined the board of the company.

Mr John Boss. Mr G. B. Delderfield.

Mr G. B. Delderfield, F.C.A., has been appointed financial accountant to the transformer division of Brush Electrical, a Hawker Siddeley subsidiary.

Mr Laurence Don, F.C.A., has been appointed a director of Raybeck.

Mr R. W. Harrisson, A.C.I.S., has become group financial accountant of Cable and Wireless in succession to Mr W. I. Mercer, A.A.C.C.A., who has retired from the company after 45 years of service.

Mr D. J. Allen, A.C.A., has been appointed chief accountant of Broom & Wade.

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Mr J. Sharman, A.I.M.T.A., has been appointed principal treasury assistant of London Transport. His responsibilities will include arranging the Executive's long and short-term borrowings, and the general control of funds.

DOUBLE TAXATION

France

The Protocol amending the Double Taxation Convention between the United Kingdom and France has now been published as a schedule to an Order in Council numbered SI 1971 No. 718.

The Protocol entered into force on May 7th.

Faroe Islands

The arrangements extending to the Faroe Islands the provisions of the Supplementary Protocol (SI 1969 No. 1068) amending the Double Taxation Convention with Denmark have now been published as a schedule to an Order in Council numbered SI 1971 No. 717.

The arrangements will enter into force on May 31st,

LONDON INDUSTRIAL CHARTERED ACCOUNTANTS' GROUP

Ladies' Night Dinner

Twenty-five members of the London Industrial Chartered Accountants' Group entertained their ladies and those of Mr C. Croxton-Smith, M.A., LL.B., F.C.A., President of The Institute of Chartered Accountants in England and Wales, and Dr R. F. B. Bennett, M.P., at the annual ladies' night dinner of the Group on Wednesday of last week at Quaglino's Restaurant, London. The chairman was Mr J. Lunch, V.R.D., F.C.A., Assistant Director General, Port of London Authority, who is one of the four members of the Group who are also members of the Institute's Council.

In proposing the toast of the Group, Mr Croxton-Smith referred to the valuable type of communication that it ensured between industry, practising members and the Institute in the London area, and mused on the desirability of similar communication lines in the provinces.

Full details of the Group's activities may be obtained from the honorary secretary, Mr T. P. Daly, F.C.A., P. & O. Transport Holdings Ltd, P. & O. Building, Leadenhall Street, London EC3.

MANCHESTER CENTENARY TIE

Members of The Institute of Chartered Accountants in England and Wales who have associations with Manchester may be interested to hear that ties bearing the Manchester Society of Chartered Accountants' centenary crest (blue tie – gold crest) are still available to them. Orders should be sent, together with remittance to cover the cost of £1·25, to the assistant secretary, Manchester Society of Chartered Accountants, 46 Fountain Street, Manchester M2 2AD.

BEDS, BUCKS AND HERTS CHARTERED ACCOUNTANTS

New President

Mr S. Broughton, F.C.A., managing director of Electrolux Ltd, of Luton, has been elected President of the Beds, Bucks and Herts Society of Chartered Accountants.

Born in 1908 and educated at Merchant Taylors' School and Lycée Condoret, Paris, Mr Broughton was admitted in 1933 to The Institute of Chartered Accountants in England and Wales. From 1954–64 he was a member of the Bedfordshire County Council and chairman of the staffing and appointment committees; he served as High Sheriff of the County in 1968–69.

Mr Broughton is also a director of the South Midlands Regional Board, Lloyds Bank, a member of the Merchant Taylors' Company, and a Freeman of the City of London. He currently serves on the panel of chairmen of the York Central Conference for the settlement of national disputes in the engineering and shipbuilding industries, and chairs The Association of Manufacturers of Domestic Electrical Appliances. His hobbies are sailing, golf and travel.

Other officers elected for 1971–72:

Vice-President: Mr J. E. Burrows, F.C.A.

Treasurer: Mr J. G. Tearle, F.C.A.

Secretary: Mr R. G. Field, F.I.M.T.A., Bedfordshire House, 16 King Street, Luton, Beds.

WOLVERHAMPTON SOCIETY OF CHARTERED ACCOUNTANTS

At the recent annual meeting of the Wolverhampton Society of Chartered Accountants, Mr R. H. Hughes, F.C.A., was elected President for 1971–72. Mr Hughes, who was admitted to membership of the former Society of Incorporated Accountants in 1939, is senior partner in the firm of R. Harold Hughes & Co, of Wolverhampton.

The Society's annual report for 1970–71 shows that membership now numbers 369 – an increase of nine over the previous year's figure. During the period under review there were two one-day conferences on 'Valuation of shares' and 'Mergers', one half-day conference on 'Problems of the smaller practice' and an eight-week course on 'Management information', in addition to evening lectures on a variety of subjects and a mock creditors' meeting.

Members of the education sub-committee again co-operated closely with the Wolverhampton Polytechnic to help guide students through their nine-month course and arrangements were made to give a number of general talks on careers. In conjunction with the Youth Employment Service, numerous school visits took place and the member of the Society nominated to advise prospective articled clerks was able to place 14 with professional firms.

Other officers elected for 1971–72 are:

Vice-President: Mr G. W. Harrison, F.C.A.

Secretary: Mr H. A. Challinor, F.C.A., W. Vincent Vale & Co, 16 Waterloo Road, Wolverhampton.

Treasurer: Mr I. C. Wooding, F.C.A.

Committee: Messrs K. Davis, F.C.A., A. H. Millichamp, F.C.A., R. E. Mullett, F.C.A., D. Sheldon, F.C.A., D. Stevens, A.C.A. and T. C. Wood, F.C.A.

FACULTY OF AUDITORS

At a Council meeting following the recent annual general meeting of the Faculty of Auditors, Mr Roy F. W. Walwyn, M.B.E., F.A., A.B.A.A., was elected President of the Faculty, with Mr J. L. Barton, F.A., A.C.I.S., and Mr S. Glickman, F.A., A.C.I.S., as Vice-Presidents.

Courses and Conferences

Institute of Taxation

The Polytechnic of the South Bank is holding an intensive revision course of one week's duration for candidates sitting the Associateship examination of the Institute of Taxation in October next.

Full details of this course, which commences on Monday, September 20th 1971, can be obtained from the Head of Department of Accountancy and Finance at Francis House, Francis Street, Westminster, London SW1. Telephone 01-828 0801.

Value Added Tax

Taxation specialists from Belgium, France, the Federal Republic of Germany and the Netherlands will deal with the practical aspects of value added tax at a conference to be held by Associated Business Programmes Ltd from June 1st-3rd at Rai Congrescentrum, Amsterdam. The conference is intended for accountants, bankers and financial directors and will be directed by Dr J. van Hoorn, jun., Director, International Bureau of Fiscal Documentation, Amsterdam. Among the speakers will be Professor G. S. A. Wheatcroft, Professor Emeritus of English Law, University of London.

Fee for the conference is £62 and full details may be obtained from Associated Business Programmes Ltd, 17 Buckingham Gate, London SW1.

Finance and Investment

'Financial problems of companies and the outlook for the economy' is the theme of an advanced seminar on finance and investment to be held by Giles Taylor Ltd, at the Bonnington Hotel, Southampton Row, London WC1, from May 26-27th. Among the speakers will be Professor G. H. Lawson, M.A.(ECON.), A.A.C.C.A., of the Manchester Business School, who will discuss 'Management implications of a corporate financial objective', Mr Alan Edwards, F.C.A., financial director, International Computers, who had chosen for his subject 'Some practical problems of financial planning', Mrs Susan Dev, M.SC., A.A.C.C.A., lecturer in accounting and finance at the London School of Economics, who will question 'How reliable are company forecasts?', and Mr Mark Weinberg, B.COM., LL.M., managing director, Hambro Life Assurance, who will present 'Problems of building up a company from a small beginning to a large corporation – a case study'.

Fee for the seminar is £45, including refreshments and luncheon each day, and applications should be made to the conference administrator, Giles Taylor Ltd, 17 The Avenue, Wanstead, London E11.

Computer Appreciation

'Computer appreciation for accountants' is the title of a two-day course to be presented from July 12th-14th at the Piccadilly Hotel, London, by Foulks Lynch (Management Services) in conjunction with the training division of Clark, Johnston, management consultants. The course has a threefold purpose: first, to assess impartially the range of computers currently available so as to help the accountant identify the equipment most likely to meet present and future needs; secondly, to give a clear, concise explanation of the elements of systems analysis and design, computer programming and operation, and management information systems, with special attention to audit problems; and, thirdly, give every participant practical experience in the writing and subsequent running of a small program on a computer.

Course fee is £70 inclusive of course notes, lunch and refreshments. Full details may be obtained from the Secretary, Foulks Lynch (Management Services), 4-7 Chiswell Street, London EC1Y 4UR.

Profitable Use of Computers

A three-day residential course on 'Profitable use of computers' is being held from June 21st-23rd, at The Compleat Angler Hotel, Marlow, Bucks. Based on a detailed assessment by the National Computing Centre of the prime factors which have affected the success of introducing computers into a wide range of organizations, the course is intended for executive directors, and there is no necessity for them to have been directly involved with computers previously.

Although the course starts on a Monday, those attending – and they are restricted to 12 in number – will be invited to a pre-course dinner the previous evening to meet the course director, who, as with most of the lecturers, will be provided by Clark, Johnston Ltd, management consultants. A full time-table comprising discussions, case studies and the use of a computer terminal will cover elementary hardware, programming and software, input and output, a computer-based management information system, stages of a project, and systems audit.

Course fee is £150, including tuition, materials, accommodation and meals and applications should be made to the Registrar, Clark, Johnston Ltd, 199/201 Old Marylebone Road, London NW1.

International Trade and Export

The variety and sophistication of modern financial services will be demonstrated at the Financing for International Trade and Export Services Exhibition in the National Hall, Olympia from September 13-17th. Sponsored by the Institute of Export to enhance the City of London's reputation as an international centre for financial services, the exhibition will illustrate all subjects connected with international finance and trade – for example, export credit finance, foreign exchange, Euro-currency, factoring, confirming and re-finance credit.

In addition to the exhibition, a conference will be held in the 500-seater Apex Suite at Olympia, and speakers and papers are now being arranged. Full details of the exhibition and conference may be obtained from the organizers, Mack Brooks Exhibitions Ltd, 96 Hatton Garden, London EC1.

Taxation

A one-day seminar on 'The 1971 Finance Bill' will be held at the Midland Hotel, Birmingham, on June 10th and repeated at the Metropole Hotel, Leeds, on June 24th. The speakers will be Mr F. A. Bevis, M.A., LL.B., A.C.A., A.T.I.I., Mr J. B. Hardman, A.C.A., A.T.I.I., and Mr T. B. D. Taylor, LL.B., A.T.I.I.

Fee for the seminar is £17 per person, including coffee, lunch, tea and documentation, and a discount of £1 per person will be granted in the case of the same firm making more than two reservations. Details may be obtained from the Secretary, Professional Seminars Ltd, P.O. Box 381, Manchester 2.

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Exam Results Supplement
March 1971 Intermediate of the English Institute and Parts IV and V of the Scottish Institute's Spring Examinations

Nothing to Declare

WE are, perhaps, not alone in suspecting that the original reference of professional practices to the Monopolies Commission was largely a politically-motivated exercise, designed to raise the implication of a 'pot and kettle' situation and thus to divert attention from other sectors of the economy. As we have said on several previous occasions, the Commission's interpretation of its terms of reference and the manner in which it chose to gather its material – in particular, its refusal to admit oral evidence in explanation or amplification of written memoranda – have combined to produce a report of frankly dubious value.

Within recent weeks, several leaders of the traditional professions have released the text of their replies to Mr John Davies's invitation to re-examine their practices in the light of the Commission's report. Amongst others, The Institute of Chartered Accountants in England and Wales, The Law Society and The Chartered Institute of Secretaries have pointed out, with considerable force and weight of authority, that this examination has shown no significant evidence of practices which, by the Commission's own standards, could be considered detrimental to the public interest.

The latest of these replies to be published is that of the President of The Institute of Chartered Accountants of Scotland, Mr G. C. Patterson, C.A. The Scottish President recapitulates such familiar – and indeed wholly justifiable – points as the extent of both qualified and unqualified competition within the accountancy profession; the undesirability of the advertising of professional services by individual practitioners; the statutory prohibition against bodies corporate acting as auditors or liquidators; and the practical difficulties of 'mixed' partnerships, which could not guarantee any benefit to the client either in costs or in improved service and which would require individual partners to accept responsibility in fields in which they were neither qualified nor experienced.

Regarding entry to the profession, Mr Patterson points out, again with complete justification, that the Scottish Institute has made great efforts over the years to increase recruitment and to improve its educational arrangements with a view to reducing the drop-out percentage. The Scottish Institute's examinations, like those of other recognized bodies of accountants, are not competitive but it is not to be expected that there would be any lowering of

standards in order to increase the number of entrants.

The fundamental distinction between a business transaction and a professional relationship is, as Mr Patterson reminds us, the difference between *caveat emptor* and *uberrimae fidei*. It is to be hoped that a Minister of State who has himself received the advantage of a professional upbringing as a chartered accountant will be well placed to appreciate this point.

FINANCE BILL

Capital Gains on Death

THE phrase 'capital gains tax' assumes, if we may be pardoned for saying so, the existence of 'gains'. One of the most severely criticized aspects of the tax was that it was charged on the notional proceeds of a notional disposal on death. Where a living taxpayer chooses to give away an asset whose market value has increased, there may be some justification for taxing him on the notional proceeds. But a deemed disposal on death is a different matter; all the more so in view of the fact that the same asset may be bearing estate duty at 80 per cent. Clause 49 and Schedule 11 to the Finance Bill, which put the matter right as regards deaths after March 30th, 1971, were the subject of attack at the committee stage of the Bill on May 20th but they survived.

Paragraph 1 of Schedule 11 substitutes a new section 24 (1) of the 1965 Act as follows:

> '(1) For the purposes of this part of this Act, the assets of which a deceased person was competent to dispose:
>
> (*a*) shall be deemed to be acquired on his death by the personal representatives or other person on whom they devolve for a consideration equal to their market value at the date of the death; but
>
> (*b*) shall not be deemed to be disposed of by him on his death (whether or not they were the subject of a testamentary disposition.'

Thus although there is to be no capital gains tax charge on the passing of the asset to the executors, those executors are allowed the benefit of the market value as at death as the new base for computing their chargeable gains. We use the word 'benefit' on the assumption that the value of the asset has risen between April 1965 and the date of death.

'Competent to dispose' was explained in section 24 (9) of the 1965 Act. The draftsman of that subsection overlooked the case of the deceased's severable share of assets to which, immediately before his death, he was beneficially entitled as joint tenant. That case has now been added to section 24 (9) by paragraph 2 of Schedule 11 to the Bill.

Paragraphs 3 to 5 deal with that curious species of gift which has never thrown off its original Latin name, *donatio mortis causa*. Section 45 (1) of the 1965 Act directed that a *donatio* was to be treated as a testamentary disposition and not as a gift, but this was only in relation to the definition of 'legatee'. The *donatio* was a gift for ordinary capital gains tax purposes and the donor was deemed to receive market value at his death, by virtue of section 22 (4). Paragraph 3 of the new Schedule 11 directs that, notwithstanding section 22 (4), no chargeable gain shall accrue to any person on his making a disposal by way of *donatio mortis causa*. There is a consequential alteration of the definition of 'legatee'. The person receiving the *donatio* is to be treated as a legatee and his acquisition as made at the time of death (paragraph 4).

There is a provision in section 24 (7) (*a*) of the 1965 Act which says that when a person acquires an asset as legatee he shall be treated as if the personal representatives' acquisition of that asset was his own acquisition. In relation to the recipient of a *donatio mortis causa* this is inappropriate. Therefore, paragraph 4 makes it clear that section 24 (7) (*a*) is not to apply to him, notwithstanding that for the general purposes of capital gains tax he is to be treated as a legatee.

Where husband and wife are living together, and one makes an out-and-out disposal to the other (whether by gift or otherwise), the general rule for capital gains tax is to substitute an arbitrary notional consideration which has the effect that neither a gain nor a loss accrues to the disponor (Finance Act 1965, Schedule 7, paragraph 20). Paragraph 20 is at present excluded in two cases, the first is concerned with trading stock, and the second one reads:

> '(*b*) if the disposal is on the occasion of the death of the one making the disposal'.

That covered assets passing as part of the free estate and also *donationes mortis causa*. All these disposals in (*b*) were to be deemed to be at market value by virtue of the old section 24 (1) and section 22 (4). But the new section 24 (1) (substituted by paragraph 1 of Schedule 11 to the Bill) enacts that a person dying is not to be deemed to dispose of the assets of which he is competent to dispose. It follows that, for him, paragraph 20 of Schedule 7 of the 1965 Act can have no effect. It is,

therefore, unnecessary to exclude it. As a result the scope of the exclusion in (*b*) above is cut down by rewording it as follows:

'(*b*) if the disposal is by way of *donatio mortis causa*'.

Thus on a *donatio mortis causa* one must value the asset as at the date of death. This value is of no concern in the computation of the capital gains tax liability of the deceased. As explained above, paragraph 3 of the new Schedule 11 provides that no chargeable gain shall accrue to the deceased by reason of the *donatio*. But the value at death is of considerable concern to the donee, since it becomes the base price on his own subsequent disposal of the asset. Thus the substitution of the new subparagraph (*b*) of paragraph 20 (2) ensures that the donee has the full benefit of the market value on the date of death.

Section 24 (1) as originally enacted, and also as now amended, is applied 'by reference' by paragraph 10 of Schedule 10 to the Finance Act 1966. This deals with bankrupts and other insolvent persons. In general it requires their assets to be regarded as held by a personal representative of a deceased. After referring to section 24 (1), paragraph 10 (2) (*b*) adds '(under which assets passing on a death are deemed to be disposed of by the deceased)'. This summary is no longer accurate so paragraph 13 of the new Schedule 11 substitutes for the last eight words the words 'acquired by the persons on whom they devolve'.

Under the existing law, where assets are in settlement, a death can cause a deemed disposal in one of two ways. The death might have the direct consequence that some beneficiary becomes absolutely entitled to an asset. For instance, where property is held on trust for the life of A and then for B absolutely, then on A's death B becomes absolute owner. On a beneficiary becoming absolute owner (for whatever cause), the trustees are deemed to dispose of the asset at its market value and then to reacquire it at the same price as bare trustees of the owner (section 25 (3)). Paragraph 6 (*a*) of the new Schedule 11 enacts that where someone becomes absolute owner on the termination of a life interest by the death of the person entitled to the life interest, then no chargeable gain is to arise on the disposal. It follows that the trustees will not be able to claim an allowable loss either.

In the exceptional case where the property reverts, on the death, to the disponor (so that he becomes absolutely entitled again to what had been his own property) the section 25 (3) disposal and re-acquisition by the trustees is to be deemed to be not at market value but for a consideration which secures that neither a gain nor a loss accrues to the trustees. Broadly speaking, this puts the settlor back into his old position. The trustees will have been deemed to acquire the asset at its market value as at the date of the settlement and the settlor will have paid tax on that basis. He now starts with that market value as his base. If the trustees acquired the asset from him on a date before April 6th, 1965, then he is deemed to re-acquire it on that date (paragraph 6 (*b*)).

Section 25 (4) deals with the case where a life interest in possession in all or any part of the settled property, determines. The subsection is confined to that part of the settled property which does not cease to be settled property on the determination. This is because assets which do cease to be settled property naturally become the absolute property of someone and therefore fall within section 25 (3). As to the assets which do not cease to be settled property, the trustees are deemed to dispose of them also at market value and buy them back at the same price. It is to be observed that *all* the assets which do not cease to be settled property are deemed to be disposed of, notwithstanding that the life interest which ceased was a life interest in only part of them. Section 25 (12) abrogates this harsh rule where the life interest in part of the settled property is in income, and there is no right of recourse to the income or capital of the other part. However, paragraph 7 of the new Schedule 11 alters the wording of section 25 (4) so that only the *corresponding part* of the assets is deemed to be disposed of by the trustees.

Where a beneficiary has an interest for his own life, which is followed by other interests, then on his death section 25 (4) imposes the deemed disposal. Even where the beneficiary has an interest for the period of someone else's life, there is a deemed disposal on the death of the beneficiary, notwithstanding that the 'life' has not yet ended and accordingly the 'life interest' has not been determined (Finance Act 1966, Schedule 10, paragraph 1 (2)). However, paragraph 8 of the new Schedule 11 now provides that there is to be no chargeable gain in either case. There is still a disposal, on the death, which means that the trustees are deemed to reacquire the assets (or the appropriate proportion of them) at the market value, or at a price equal to the appropriate proportion of the market value.

There are circumstances in which estate duty may become payable on settled property on a death by reason of the complicated new provisions introduced in 1969 and otherwise than in a straightforward case of the termination of a life interest at the death. Paragraphs 9 and 10 of Schedule 11 provide capital gains tax relief in such cases. Lack of space precludes treatment of these.

Section 25 (7) of the 1965 Act was directed against discretionary settlements where there were no life interests in possession. It provided, broadly speaking, for a deemed disposal of all the settled property at least every 15 years. Schedule 13 of the Bill repeals section 25 (7), together with the provisions depending on it.

CURRENT AFFAIRS

ICWA Seeks Name Change

IN presenting its alternative proposals against the possible failure of the integration scheme last year, The Institute of Cost and Works Accountants let it be known (*The Accountant*, May 21st, 1970) that its own future plans included a possible change of name in order to reflect more accurately its aims and activities.

A recent letter to members of the ICWA from the President, Mr S. E. Woods, F.C.W.A., F.A.C.C.A., F.C.I.S., shows that there is considerable support amongst ICWA members up and down the country for 'The Institute of Cost and Management Accountants' and the appropriate formalities will be put in hand to effect the change. Under the Institute's present constitution, this will require a special resolution of the members in general meeting and the consent of the Department of Trade and Industry.

The ICWA Council has also decided to petition the Crown for a Royal Charter, and the preparatory work for this application is being put in hand. As in the case of The Association of Certified and Corporate Accountants which recently announced a similar decision (*The Accountant*, April 29th), an early decision by the Privy Council on this application appears unlikely, and would certainly have to take into account the possibility of objection from other bodies whose members are at present entitled to describe themselves as 'chartered accountants'.

Debating VAT

NO doubt all interested parties – not least the retail and service trades as well as wholesalers – are busy studying the Green Paper on the value added tax. Judging by the remarks of Professor G. S. A. Wheatcroft, who has been advising the Government on this particular tax, time is now short for those who feel that they have a special case and want to make representations for particular treatment under the new tax.

In the course of an address to the Northern Stock Exchange Investment Conference in Liverpool last week, Professor Wheatcroft stressed that 'those who deal in money and all kinds of securities may feel that they should qualify for exemption under the tax, but exemptions may not be all that advantageous and they should study very carefully the VAT proposals before crying for exemption'. If they consider that special treatment is merited, he added, then HM Customs and Excise will be very willing to discuss the issues with them.

One body – the Country Landowners Association – has already made its representations to the Government on the VAT. According to their President, Mr George Howard, the Association foresaw the introduction of the tax 'several years ago' and has since been investigating the effects of such a tax on agriculture and landowning.

The problem for the members of the CLA is that politically it will be necessary to apply a zero or low rate of tax on agricultural products, in which case the VAT payable by the agricultural industry on its purchases is likely to exceed that on sales. To allow for this, argues the CLA, a speedy system of cash repayments by the Government is essential. In particular, this is needed on the ownership side, where substantial capital investment is undertaken, if development and expansion is not to be penalized.

On the other hand, a low rate of VAT on farm and agricultural products will reduce the potential liability for financing VAT payments by farmers and landowners. The CLA recommends that farmers with a turnover below the minimum fixed for VAT should nevertheless have the option to be included in the system. To do otherwise would penalize those who wish to undertake capital investment.

Take-over Panel Reports

THE Panel on Take-overs and Mergers reports that in the year to March 31st, 1971, there were 331 take-over, merger and other deals negotiated – a reduction of 61 on 1969–70. The size of companies involved was also considerably reduced.

Of the 1970–71 total, 186 were successful proposals involving control. There were 44 unsuccessful bids, one unsuccessful scheme of arrangement and 35 proposals withdrawn before the issue of documents. The balance of 65 was made up of offers and schemes of arrangement involving minorities and preference issues.

Lord Shawcross notes that in recent years the proportion of 'paper' as against cash offers has increased. In 1964 cash formed more than half the total consideration in take-over bids but by 1970 the proportion had fallen to 23 per cent. The 1965 Finance Act made paper more attractive through the introduction of capital gains tax.

With the increasing use of paper for bidding purposes, there has become an increasing need for the paper's worth to be justified. Hence demands from take-over-attacked companies that bidders should have their paper underwritten to provide an effective cash alternative bid.

This has been acknowledged by the Take-over Panel to the general approbation of the City. It is surely wrong that shareholders should feel obliged to

sell shares on the market for fear of what their resultant paper may be worth should a bid be successful.

Although only three of 19 companies so far investigated have failed to afford a satisfactory explanation for not achieving profit forecasts (within a margin of 10 per cent), there is no indication of what makes a 'satisfactory' explanation, or what action might be taken on 'unsatisfactory' cases. Speaking at a press conference to introduce the Panel's report, Lord Shawcross said he sometimes looked rather enviously at the right of the General Medical Council to question witnesses, and suggested that the Panel might with advantage be given a similar official charter. There had been occasions, he said, when they would have liked legal powers to demand documents and to take evidence from witnesses under oath.

The Take-over Panel is still in the process of ruling by experience, but the process is now becoming considerably refined.

Women Students Gain Honours

WOMEN students have been particularly successful in the April Final examination of the Scottish Institute and the March Intermediate of the English Institute.

Miss Mary Allan Hyland, of Aberdeen, won the Scottish Institute's Gold Medal for the most meritorious performance in Parts IV and V, and also won the Canadian Prize, the Institute's Prize and the J. C. Burleigh Prize (both jointly with one other), the C. J. Weir Prize (for the best Aberdeen candidate) and the Guthrie Prize (for the best woman candidate).

In the English Institute's Intermediate, Miss Judith Anne Haines, of Birmingham, was placed third (equal) in order of merit. Miss Valerie Jane Coope, of Blackpool, was placed ninth (equal) in order of merit and also won the Frederick Whinney Prize for the highest combined aggregate of marks in the two book-keeping and accounts papers, and the Deloitte-Plender Prize for the highest marks in each paper on book-keeping and accounts I. Miss Margaret Robertson Millar, M.A.(Glasgow), of London, shared ninth place in order of merit with Miss Coope.

All three were successful in the examination at the first attempt, and of the 145 women who sat the Intermediate, 80 gained passes. Their percentage pass rate was therefore 55 per cent, compared with the overall pass rate of 51 per cent.

Other prize winners in the Scottish Institute's exams were Mr Vikram Lall, of London, who shared the Institute's Prize and the J. C. Burleigh Prize with Miss Hyland; Mr Graham Robert Pottinger, LL.B., of Glasgow, who won the John Munn Ross Prize, and Mr James Matthew Raeburn and Mr Leon McGregor Marshall, both of Glasgow, who won jointly the Albert J. Watson Prize in Part IV.

First place in the English Institute's Intermediate was won by Mr Glen John Nicol, of Bristol; second place by Mr Michael John Sinfield, of London, and third place (equal with Miss Haines) by Mr Jeffrey Alan Cloke, also of London.

The names of the successful candidates in the Intermediate and in Parts IV and V of the Scottish Institute's examination are published as a supplement to this issue.

Fair Play for Auditors

THE proper relationship between auditors, directors and shareholders has again been highlighted by a further case which presents points of similarity with that of S & K Holdings, reported in *The Accountant* for April 22nd.

Messrs Angus Campbell & Co, who declined an invitation from the board to resign as auditors of C. E. Heath & Co Ltd, have now been informed of a proposal to nominate Messrs Arthur Andersen & Co in their place at the next annual general meeting and have exercised their right to circulate written representations to shareholders under section 160 of the 1948 Act.

The C. E. Heath directors have recommended the appointment of Arthur Andersen as being in the best interests of the company 'in view of their world-wide organization and international experience'. In their representations, Angus Campbell point out that they in fact have a wide international coverage through associated firms, and that in any case the shareholders are concerned with the appointment of auditors to examine on their behalf the accounts of a British company subject to the United Kingdom Companies Acts.

Whilst there is nothing to prevent directors from seeking special management advice and services at home or abroad from other professional firms, this right of the directors to seek assistance should not be confused with the shareholders' right to appoint auditors of their choice.

Government Statistics

IT is widely recognized that the scope of government statistical inquiries among business and industrial undertakings is all-embracing. Some cynics and critics argue that it constitutes a virtual stranglehold on the activities of the business community, and the Government statistical service is all too well aware of the widespread hostility to form-filling and is making substantial efforts to overcome it.

An article in last week's issue of *Trade and Industry* reports on a recent seminar on business statistics sponsored by the Business Statistics Office, which was devoted to discussing the methods of improving response from firms to government statistical surveys. It is worth noting that before any such survey is launched, the BSO has detailed discussions with firms, trades associations and its statutory advisory committees about the questions to be asked, as well as definitions in the questionnaire and its lay-out. Sometimes questions are included at the specific

request of business or industry, while the BSO also takes advice on whether the information can be provided from firms' existing records.

Furthermore, the BSO tries to give as much advance notice of any such inquiry and what it entails. Changes in the questions are made as infrequently as possible. After the 1970 Census of Production returns have been compared, the Service proposes to carry out a follow-up survey to test reaction to the inquiry.

It is recognized, too, that industry would be more ready to co-operate if the product of the inquiry was shown to be useful. The Central Statistical Office accordingly propose to publish a booklet, *Profit from Facts*, illustrating the uses and value of government statistical data. It may be added that the need for such a study was advanced in these columns some months ago.

In the current issue of *Statistical News* two statisticians of the BSO explain the problems of collecting information from business undertakings with more than one office or factory. The so-called multi-unit business,

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THIS IS MY LIFE

Honour and Inspiration

by An Industrious Accountant

AUGUST will see the bi-centenary of the birth of Walter Scott, and the world over will be paying him well-earned tributes of admiration. Perhaps the accountancy profession may also add its token.

There is something touching about the simple grandeur of Scott's career. It includes the little boy whose lameness barred him from games, reading hungrily the old lays and legends of the Border clans; the young solicitor whose *Last Minstrel* brought him fame in 1802, persuading the Prince Regent to recover the Scottish regalia and to bring back the tartan and all it stood for; and the wealthy and popular author of the Waverley Novels rescuing the Highland traditions from oblivion.

It also includes the tireless worker in the public service – curator, deputy-sheriff, landlord and baronet – whose world crashed about his ears when his publishing firm collapsed in 1826. Its liabilities amounted to £130,000. His partner, James Ballantyne, had nothing, and Scott could largely have avoided responsibility – despite the limited liability restrictions of the time – instead he courageously pledged all he had, and all he would ever have, to meet the deficit.

He was at heart a romantic with an old-fashioned standard of personal honour; his word was his bond. That was why he drove himself exhaustingly, writing fourteen hours a day, to meet his voluntarily-accepted liabilities.

He was by nature generous, hospitable, and open-handed. That is why Ballantyne's found itself overloaded with almost unsaleable stock, mostly writings of poor working men whom he had tried to bring to public recognition.

Scott trusted his friends implicitly. That is why he was the only moneyed partner in the business, the two Ballantynes being old school friends. Both were apparently wildly extravagant and quite incompetent, treating him – in his own jesting words – as their milch-cow. John, sporting and over-ambitious, died a bankrupt in 1821; pompous James, though a fine printer, seems to have spent most of his time correcting Sir Walter's proof-sheets, reckless of the calamitous cash-flow.

Money was a means rather than an end, and throughout all his works Sir Walter's heroes show a similar scornful indifference to hoarding for its own sake . . .

'Indignant smiled the Douglas proud
And threw the gold among the crowd'.

Scott was also extravagant in purchases of land or the relics that he loved, but his carelessness of systems or financial controls was his downfall. The firm of Constable & Co failed first, with liabilities exceeding £250,000 and Ballantyne's was inextricably involved with it. There were London contacts which got out of hand, bank accommodations, and bills renewed again and again. How much he knew, or should have known, or knew but misunderstood or disregarded, seems to be debatable.

My old *Chambers' Encyclopaedia* of 1923 indicates that responsibility was mixed; 'Perhaps an accountant can make sense of the controversy, in three pamphlets, between Mr Lockhart [Scott's son-in-law and biographer, no admirer of the brothers] and the representatives of the Ballantynes (1838/39).' Perhaps, if old records are still available for research and modern accountancy skills can help, such an operation would be a worthy tribute?

Be that as it may, the picture of the weary old man, racked with illness, writing through the night to reduce the crushing obligations that his royalties cleared after his death in 1832, should be an inspiration to all of us today.

while less numerous than the single unit undertaking, nevertheless plays a larger role in the UK economy. No one studying such articles can ignore the very real effort being made by the Government statistical service to improve its statistics and minimize the burden to industry.

Calgary and Edmonton

THE appointment of Mr Douglas Clarke, LL.B., F.C.A., as liquidator of Calgary & Edmonton Land Company Ltd last year (*The Accountant*, August 6th, 1970) was described at the time as only one incident in 'a welter of litigation'. The principal shareholders in the company, Mr and Mrs Isaac Hillman, had apparently charged their shareholdings and the assets of the company and its subsidiaries to a bank as security for substantial advances.

In a statement issued this week, Mr Clarke announced that about 118 acres of building land owned by the company in the Wokingham area were likely to be released over the ten years ending in 1981. Subject to satisfactory negotiations, the proceeds of sale would be used to repay sums advanced by the company's bankers.

A True and Fair View?

New Look at Traditional Principles

SOME two hundred delegates assembled in the Great Hall of The Institute of Chartered Accountants in England and Wales last Wednesday for a one-day seminar organized by Foulks Lynch & Co to discuss the limitations of traditional accounting principles. Amongst the distinguished guests present were Mr C. Croxton-Smith, M.A., LL.B., F.C.A., President of The Institute of Chartered Accountants in England and Wales; Mr S. E. Woods, F.C.W.A., F.A.C.C.A., F.C.I.S., President of The Institute of Cost and Works Accountants; and Mr E. A. Lediard Smith, F.A.C.C.A., the immediate Past-President of The Association of Certified and Corporate Accountants.

Opening the proceedings, the conference chairman, Professor Trevor Gambling, B.COM., PH.D., F.C.A., Professor of Accounting at Birmingham University, referred particularly to inflation which, he said, was an urgent although not a new problem. The collapse in recent years of seemingly impregnable companies had exposed some of the limitations of traditional accounting concepts, and action was urgently necessary.

Diagnosis and prescription

Professor Edward Stamp, M.A., C.A.(CAN.), agreed that the limitations of traditional accounting principles were now widely recognized in the financial press and elsewhere. This, he said, was a world-wide problem which had given a lot more trouble in the United States and Australia than in the United Kingdom. The UK had the opportunity to deal effectively with the situation before it got out of hand.

Professor Stamp's first and principal criticism was the lack of any general theory supporting what accountants do or were trying to do. There were no generally accepted definitions of such important terms as 'income' or 'value'. This approach was typical, in his view, of the developing stages of any learned profession.

Another objection was the failure to recognize objectives and purposes of accounts. Published accounts should be seen to meet more clearly the needs of the user, and research should be undertaken to determine what these needs were. He quoted a passage from section V 8 of the *Members' Handbook* of the English Institute, which had been settled with the assistance of counsel, that

> 'no claim by an individual shareholder would succeed in respect of loss suffered through his own investment decisions made on the strength of misleading company accounts supported by an auditor's report containing negligent misrepresentations, since the purpose for which annual accounts are normally prepared is not to enable individual shareholders to take investment decisions'.

People, in fact, read accounts to make financial decisions about the future; current values were relevant and the fact that a vast international industrial enterprise like Philips used current values proved that the system was not impractical. He claimed that the use of current values was economically right and sound, and should make for better management decisions.

He also returned to the charge, first made in the Australian journal, *Abacus*, about six years ago by Professor Chambers, that there were over a million possible permutations of recommended bases of valuing assets. The inclusion in published accounts of such figures as stock to the nearest £ – as had been done by 177 out of 300 companies in the English Institute's latest *Survey of Published Accounts* – created a quite fallacious sense of accuracy.

Role of the ASSC

Professor Stamp was, of course, one of the critics whose comments led to the formation of the ASSC, and he hoped that for him to defend it now would not suggest that the poacher had turned gamekeeper! He was very disturbed

by some of the attacks which had been made on the ASSC, particularly by people who had described it as 'authoritarian' and 'arrogant'. Once it had been decided to build a new structure, it was the height of folly to attack the architects and builders. The ASSC could make or break the profession in regard to the credibility of published accounts, and had the opportunity to assume a position of leadership throughout the world.

Product costing

Lord Wilfred Brown, P.C., M.B.E., the next speaker, criticized some of the limitations of conventional product costing. 'If you can make a friend of the accountant', he said, 'you will emerge as a successful manager'. In his view, there was no objective basis for loading on to existing products the resources used in designing, developing and launching new products; frequently the areas over which individual managers were authorized to commit expense were very ill-defined, with the result that departmental and subsidiary company statements were charged with expense which the manager did not commit, or not charged with expense which he did commit.

He claimed that many contracts which would have yielded a useful addition to profit might have been lost because unit costs based on an arbitrary overhead loading were apparently in excess of the contract price. Some sound managers might have lost their jobs – and, more seriously, ineffective managers might have retained theirs undeservedly – because of the hazards of subsidiary profit-centre accounting and ill-chosen time spans.

As a basis for the objective evaluation of output, Lord Brown put forward the theory of 'product analysis pricing' which he developed in conjunction with Elliot Jaques in 1964. This recognized that any product included, in addition to the material and finished components incorporated in it, the various 'properties' generated by the manufacturing process which produced the product. Since material and bought item costs were known, these could be deducted from the current actual selling price of representative sample products to arrive at a net product value, which was the sum of the 'properties' incorporated in each unit and the value per unit of each property.

Profits overstated

In the afternoon, the third speaker, Professor G. H. Lawson, M.A.(ECON.), A.A.C.C.A., of the Manchester Business School, spoke on the attributes of a satisfactory measure of profit. He based his comments on the hypothesis that the principles of conventional accounting led to a consistent overstatement of earnings.

From a simple example of the discounted cash flow theory, he deduced that the valuation of a business as a going concern was really only a more detailed version of the simple example. For such an exercise, it would be necessary to specify the company as a 'total cash-flow model' in order to cope with all the details. The ultimate object of a buyer's attention when he contemplated the purchase of a business, according to Professor Lawson, was the cash-flow stream which was expected to emerge at the end. The value of a business as a going concern should be related to the 'shareholders' cash-flow stream' (that is, the distributable equity of cash-flow less external equity finance) and the 'shareholders' capitalization rate' measured by the rate of return that could be obtained from comparable risk investment elsewhere.

A cash-flow model was necessary, he said, to reveal whether before or after the event the numerical magnitude of the interacting financial variables in which the 'stream' of shareholders' receipts, and therefore their return, ultimately resided. He thought it difficult not to believe that the revelation of such information should be the paramount objective of any accounting system.

'Matching' principle

The relation of revenues and costs under the conventional 'matching' principle inevitably encountered difficulty because these overlapped two or more accounting periods. Under a cash-flow basis, sales, for example, would be measured by the amounts actually received in cash, including proceeds of sales of a previous period and cash received in advance. Recorded sales and cash-flow sales would coincide only in a no-growth non-inflationary situation, and then only if the period of credit remained constant. Such circumstances were so unusual as to constitute a special case. In a continuously expanding economy with some degree of inflation, accrued sales would tend generally to overstate cash-flow sales. Similar conditions applied to costs other than depreciation and inventories.

In inflationary conditions, a succession of depreciation charges which amounted in all to the historical cost of an asset would seriously understate the full cost of using it.

Professor Lawson illustrated his point with the tabulated accounts of the first ten years of a company which commenced business in October 1959. This showed that in every year in which turnover increased by comparison with the previous year, pre-depreciation profits calculated on the conventional basis exceeded the operating cash flows, whereas a year in which turnover fell was followed by an excess of the operating cash flow over conventional profits.

It could hardly be disputed that published accounting data were used for a multiplicity of external purposes by a multitude of people. Professor Lawson left open the question of whether society was being misled, or whether the bias in 'accounting methodology' was uniformly consistent at both national and individual company levels so that, in effect, it played a neutral role in the allocation of resources and in the distribution of income.

Open forum

Whilst the challenge posed by the speakers to conventional accounting principles plainly provided much food for thought, it appeared unlikely that the traditional concepts could be wholly abandoned or that radical changes were to be introduced overnight.

For example, 'price level adjusted' accounts might appear as a supplement to the traditional kind, but could hardly be made an alternative to them within the present framework of company law.

Likewise, the 'total cash flow' financial system appeared to disregard the traditional segregation of capital and revenue items, and included operating cash flows, fluctuations in bank balances, movements in long-term debt, external equity finance and sales of surplus assets in the same tabulation.

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Where Have All the Profits Gone?

by ERNEST GOW, F.C.W.A., A.M.B.I.M.

Not without reason, companies continue to emphasize the importance of profit, as a percentage of sales, or as a return on assets. In the private sector of business there is no ultimate alternative to profit, to finance additional investment, to pay pension funds and to provide dividends.

IT is possible for a company to be making a substantial profit and at the same time to have little in the way of cash balances available to meet its commitments, such as payroll, suppliers and taxes. Indeed, it is common for companies to operate with a bank overdraft and it does not imply a stigma in any manner to do so. However, there are limits to which a company can be involved in such a situation and with the current inflationary spiral it is important that we should be aware of the increasing problems of liquidity.

Liquid ratio

Liquidity in effect refers to the ratio of liquid assets to total assets, and to the current and continuing cash demands of a business. Most businesses have heavy and continuing cash demands for payrolls and for maintenance of inventories, and rely upon the payments from customers on a prompt and regular basis to finance these cash flows.

It is the skill in balancing the inflows and outflows of cash which affects the liquidity position of the company. If you decide to embark upon a replacement or expansion programme, you have to project the cash flows generated from the programme and this of course implies that the additional investment will yield a profit.

The cash flows may show that you need to borrow funds for a period of three to five years. This, of course, affects the state of liquidity, and if the project fails to yield the profit or cash flow the result could in the extreme situation be insolvency. There is a growing demand for funds to operate day-to-day business, and there are growing pressures on liquidity.

Managing money is becoming more and more important and indeed vital to the well-being and continuing prosperity of business and therefore is of importance to managers. The following illustration of a source and disposition of funds statement will show how the drift towards a crisis can arise.

It shows the situation which could arise in a hypothetical company which is making a substantial profit, but where the liquidity position is deteriorating. It illustrates the need for expertise in managing the company's finances and also the need for some form of control to avoid getting into such a position.

These figures are, of course, contrived, and have been framed to illustrate the particular points in mind.

SOURCE AND DISPOSITION OF FUNDS STATEMENT

	December 1969 £	*December 1970* £	*Source and disposition* £
(1) Cash (Overdraft) ..	(360.000)	(255.000)	105,000
Current assets			
(2) Receivables from customers	940,000	1,000,000	(60,000)
(3) Receivables from other sources ..	75,000	97,000	(22,000)
(4) Inventories	150,000	200,000	(50,000)
	1,165,000	1,297,000	
Current Liabilities			
(5) Payables to suppliers	320,000	360,000	40,000
(6) Payables to subsidiaries	165,000	182,000	17,000
(7) Corporation tax ..	56,000	88,000	32,000
	541,000	630,000	
Net current assets ..	264,000	412,000	
(8) Fixed assets (net value)	1,060,000	1,145,000	(85,000)
Net assets	1,324,000	1,557,000	
Comprised of			
(9) Share capital ..	900,000	900,000	—
(10) Profit from prior years	320,000	270,000	(50,000)
(11) Profit from current year	104,000	387,000	283,000
	£1,324,000	£1,557,000	£105,000

Comments on the statement are as follows:

From line number 11 it can be seen that in the period referred to, a profit of £387,000 has been earned but reference to line number 1 shows that our cash position has only improved by £105,000. Where have all the profits gone?

Line (1) This shows the net difference in the overdraft between the two periods.

Lines (2) and (3) We have further financed our customers and subsidiaries to the extent of £82,000. This could be caused by revised terms of trade because of economic conditions in overseas countries or it could be caused by customers 'manipulating trade terms' or a general increase in the volume of trade.

Line (4) Inventories of finished products and production stores have increased by £50,000 for various reasons. These reasons should be known to committees which are set up at each plant whose responsibility it is to determine what steps must be taken to keep inventories at a level which results in efficient shop floor operation and customer satisfaction countered with the cost of maintaining inventories.

Line (8) We have spent an additional £85,000 on the purchase of fixed assets which should in turn improve the earning capacity of the company.

Line (9) Share capital has not changed during the year.

Line (10) The figure of £50,000 is the amount paid by the subsidiary in dividends to parent company.

The above increases in disbursement of funds are offset by the following inflows:

Line (5) Increase in the amount payable to suppliers of £40,000 indicates either increased volume of activity or the planned delay in paying suppliers.

Line (6) Payments especially to parent company may have been delayed due to the extent of current borrowings being near the limits negotiated with the various banking authorities.

Line (7) The increase in corporation tax liability of £32,000 reflects tax on profits earned in the current year to October. More significant in this area, however, is that of the 1969 liability of £56,000 almost £40,000 is due for payment early in 1971 which will put a further strain on our cash resources.

Profit or liquidity

From the above it can be seen that whilst profit is the prime objective, it is not an accurate guide in isolation to the health of the business. It is the source of funds which allows companies to expand, to finance and to have full control over their own operations with a minimum of outside interference.

It is therefore the responsibility of management firstly to ensure that the profit level earned is a suitable rate of return on capital employed and further that expenditure on inventories, fixed assets, etc., is within the objectives of the overall financing policy of the company.

In particular, attention should be paid to inventories and capital assets, and the situation above emphasizes why these areas are so important. In addition, constant vigilance must be maintained on all items of expenditure charged to revenue accounts to maintain a correct state of liquidity.

New Outlook on Internal Audit

II – Systems Development with Particular Reference to EDP

by P. C. ELLIOTT, F.C.A.

THE function of internal audit is to give an independent appraisal of controls on behalf of management. Controls to be appraised will relate to all activities and be controls on efficiency as well as on data being processed.

If we are going to appraise controls on behalf of management in this way, we must think like management; so let us see what management requires from systems. I would suggest these requirements are effective systems at minimum cost with support of staff involved.

Computers

It is difficult to discuss systems for long without mentioning computers, so perhaps this is a good time.

Computers are sometimes called 'figure factories'. Why is there such audit interest in computers rather than in other factory processes?

Let us look at an information system without computers:

I have taken some of the basic functions of my own group but you can easily substitute your own. We have the activities of exploration, production, transportation, manufacturing, marketing and others. As a result of these

activities, data is artificially created which is collated, sorted and so on, and goes to management for decision-making.

Remember that data is artificially created. Too many people think that data is real whilst the activities remain rather mistily in the background, seeming less real than the books of account or statistics in front of them.

A paper delivered to the London and District Society of Chartered Accountants. An earlier paper in this series appeared in *The Accountant* of April 15th.

Without computers, management has a fairly good idea of the procedures involved in creating and collecting data and are reasonably happy to make decisions on the information that comes to them.

Now let us look at the position with computers:

Management no longer receives the information directly. After simple or automatic processing it disappears inside the computer, controlled by computing management. After hidden processing, the results then come to general management as a basis for its decision-making; many of the minor decisions may already have been made for them.

General management is not, now, so familiar with how the information is collected or what happens to it thereafter.

There is, then, a special need for an independent appraisal to ensure that management is getting what information it thinks it is getting and perhaps offering suggestions towards more meaningful information. This independent appraisal is given by Internal and External Audit – complementary rather than duplicative activities.

Internal Audit reponsibilities can be summarized as an appraisal of controls operating in a computing function; and control effectiveness of systems and controls operating within systems. If a system is supposed to control assets, 'how effective is that control?' as well as 'how good are the controls on the data flowing through it?'

Controlling computer function

Although not directly within the scope of this talk on 'Systems development' it is essential that controls operating in a computing function are reviewed in support of both 'Operational systems' and 'Systems under development'.

In this review we look at the organization to satisfy ourselves that there is a proper segregation of duties, for example, between system development and operations; we look at fall-back procedures to see that there are adequate precautions against accidental loss of information, by maintaining successive tape generations, or by periodic dumping from disks and drums to tape; we look at fire precautions, general security and controls on staff employment and usage of equipment; we also look for good standards of documentation and adequate testing procedures. Good controls and discipline in the computing function usually mean an awareness of controls in systems development and success in subsequent operations.

Systems under development

In considering systems under development I have EDP systems particularly in mind, but many of the principles apply to manual systems and even to non-data processing systems.

The first control that we expect to see operating is the search for an optimum solution. In data processing there should be feasibility studies; in mathematical fields, perhaps, linear programming techniques; in processing fields, the building of pilot plans and so on. There should be the effort to make best use of techniques and in EDP we can help quite a lot to see that modern principles are being applied.

This is the sort of basic information system we are moving towards:

We have quantities of physical things – cash, materials, stock, other assets, people and so on. The use of real-time systems, or rapid processing, gives opportunity for recording movements and current levels of these entities. By feeding in to the system 'action' levels we can leave computer programs to take not only action on movements but also action when critical levels are reached.

For example, a sale is a negative movement on stock and can lead to invoicing routines. When the stock falls to an 'action' level previously fed in to the system an automatic warning can be given calling for further production, or purchases. Similarly, the rising of a cash balance to an 'action' level may call for investment routines, and vice versa; the falling of material items to 'action' levels can create indenting routines.

Such systems are really much easier to control than previous manual ones. At any time, real levels can be checked against recorded levels and well-controlled programs will ensure that output is correct. This is particularly important as we are beginning to transmit directly to computers in other organizations instead of producing tabulations, cheques, etc., that can be compared with authorized input. Some of you may already be involved with systems taking magnetic tapes to the Inter-Bank Computer Service Bureau for processing of payments to employees or other third parties.

In spite of the desirability of using latest techniques, we must not forget the second management requirement that I mentioned in the introduction – that there should be effective systems at minimum cost. We need to consider the time schedule in relation to costs. Immediate accessing of information is usually more expensive than, say, the sequential reading of tapes. What is the real importance of saving a few hours, or doing something daily instead of weekly?

Preparation of a justification

An important control in achieving minimum cost is the preparation of a justification statement. Before management enters into an investment it calculates the expected return using DCF or other methods. The cost of new systems is high enough to require similar treatment. Here is a form of justification statement:

JUSTIFICATION

	£
Benefits (estimated)	10,000 p.a.
Running costs (estimated)	6,000 p.a.
Net benefit expected	£4,000 p.a.
Development costs (estimated)	£6,000

Recovery of development costs estimated in – 18 months.

Benefits may be broken down into tangible and intangible. The recovery period should be reasonably short in EDP systems as, if it extends to five years or longer, you may be sure that the system will change substantially, or the computer will be changed, during this time cycle, resulting in final non-recovery of development costs. Benefits always tend to be over-estimated and costs under-estimated. By reviewing actual benefits and costs at a later stage, and drawing the attention of management to these figures, more realism comes in preparing further justification statements. These statements are, also, useful in determining priority of jobs for development.

Internal audit participation

How does internal audit become involved in these matters? There should be an arrangement with the systems analyst that, at an appropriate time, after the main thinking has been done but before detailed programming starts, a systems specification is prepared and sent to the user department, to internal audit and to external audit. A meeting will then be called to consider the various control aspects.

The review of controls in each control area requires a sound analytical approach breaking down the system into its physical parts. For example, in most data processing systems there will be a user preparing initial documentation; there will be a messenger service to the input preparation department of the computing function; there will be preparation of punched cards, paper tape or magnetic tape; there will be processing; and there will be subsequent movements to output control and back to the user or straight to third parties using other messenger services. Controls need to be examined in each of these areas to see that source information is authorized, that no data is subsequently added or lost, and that the processing is correct. These controls may be in the form of batch totalling, document and record counts, automatic numbering of amendment listing by computer, and so on.

An important control relates to input validation. Let us look at a simple invoicing routine:

If we have an invoicing routine with master files containing information on customers, products, pricing, the minimum information required to be fed in as input is customer number, product code and quantity. By introducing a computer input validation routine, before normal processing starts, we can check that these three fields have been completed. The routine can go further and verify that each of these fields falls within acceptable limits. Incomplete input, or input obviously in error, can then be rejected.

Looking at the diagram of the invoicing routine again, it will be seen that the master files themselves need to be updated from time to time by a separate program. Input for amending master files is more important than daily input to the system and a higher level of authorization should be specified for master file amendments.

Consideration of fraud

Internal auditors do not over-emphasize problems in relation to fraud; more effective worth is lost through inefficiency than through fraud, and good basic controls help to prevent both fraud and inefficiency. If you examine cases in the press relating to so-called computer frauds they nearly always disclose poor basic controls. Had a manual system been run with such poor controls, the fraud would have been even easier to perpetrate. The great advantage of EDP systems is that they are usually integrated, and there are many more internal checks than in manual systems. A manual payroll system used to stand alone; an integrated personnel records/payroll system will be producing not only the payroll but – from the same records – manpower statistics; costing; PAYE returns; analyses of staff by nationality, job gradings, occupations, and so on.

Almost as important as adequate testing is existence of laid down standards of documentation of systems and the discipline of following them. Too many systems have collapsed after they have gone operational because of failure to document them. Failure to document often means that the testing has not been carried out efficiently and that the systems analyst is expecting modification to the system in the early stages of operation. There should be the insistence that before systems are accepted as operational, they have been fully tested and documented; transfer or resignation of staff from the project then, also, has minimum repercussions.

Support of staff involved

The third management requirement that I suggested was the support of staff involved in new systems.

Good systems can fail through lack of communication. In all large systems there is a need to establish a representative in the user division who will be the contact with the systems analyst. Systems do not just consist of computer programs. The system goes from the source point of the information to the final resting place of the output, in whatever form, involving manual, mechanical and electronic controls calling for a joint effort with full communication.

There should be specific training of staff in new systems, and their understanding of 'what it is all about' helps towards their co-operation. A mistake that is often made is to assume that the introduction of a new system will bring immediate staff reductions. These staff reductions may have been taken into account when preparing budgets, resulting in pressure being brought to bear on systems analysts and the computing function generally to get the system in 'somehow'. The result is inadequate testing and lack of proper documentation, leading perhaps to failure of the system after staff reductions have taken place.

In the early stages new systems require additional staff, particularly if parallel running is to take place. Lengthy parallel running should be avoided, if it should take place at all.

In the long term, well designed systems should improve job interest as transcription and other mundane clerical tasks are removed. We have, of course, a long way to go in improving input devices, but internal and external auditors, in contact with their opposite numbers covering other organizations, can help towards a tremendous reduction in unrewarding clerical tasks. It is quite wrong that, at the moment, one organization, for example, may use its computer to produce an invoice which, when received by a customer, is transcribed and coded back on to a booking form for re-processing into machine language. You will all be able to think of other examples where we can help to improve overall commercial efficiency.

MANAGEMENT INFORMATION

Time-Cost Optimization in Critical Path Analysis

THE control of projects has centred on two areas – those of cost and time. Techniques such as critical path analysis, network analysis and line of balance, have been designed to budget the programme in terms of time and resources, with the basic objective of completing the project in the minimum time, taking into account any resource constraints. Cost control has centred around the control of outlays on the project within predetermined limits which themselves will have been prepared on some minimum cost basis.

It can readily be seen that the objectives of these two principal project control areas may be in conflict. One of the simplest conflicts is that attempts to shorten the critical path of a project may result in extra costs being incurred. For example, employees may be required to work overtime at premium rates beyond the levels allowed for in the cost estimates for the project. If the problem arises because of a potential over-run in the time allowed in the contract, then management must weigh the disadvantages of allowing the over-run to occur and the extra costs needed to correct the situation.

There are subsequently more subtle nuances to the problem which are related to the investment of funds in the contract. Shortening the time-scale of the project effectively shortens the time that funds are locked up, and if the level of funds is not increased then the overall investment is reduced and the profitability of the project increased. This increased profitability may in turn be eroded if extra costs must be incurred to meet the tighter time limits.

Where the desired time is equal to or greater than the second longest path through the project, the solution is quite simple. If each activity is ranked in order of 'cost slope', then those activities with the lower cost slopes should be shortened as far as possible, gradually working up the scale of cost slopes until the desired shortening of the critical path has been achieved.

Where the desired project duration is less than the second longest path, then not only has the critical path to be reduced but one or more other paths as well. In such circumstances the straight selection of activities to be shortened by reference to their cost slope is no longer valid. Some activities may well figure not only in the critical path but also in some of the sub-critical paths. Cost minimizing may, therefore, be better achieved by shortening some moderately high cost slope activity common to several paths that need shortening, rather than concentrating upon the lowest cost slope activity which may only figure on one of the paths.

Advantages and disadvantages of SAM

In an article entitled 'A simple CPM time-cost trade-off algorithm' which appears in the February 1971 issue of *Management Science*, Nicolai Siemens sets out a procedure for the systematic reduction of project duration at the minimum cost which he calls SAM (Siemens Approximation Method).

The author advances his system on the grounds that it is simpler than other alternatives and because of this simplicity

is ideal for use through manual techniques, although it is also suited for computer solution. The simplicity produces a further bonus in shortening the time needed for solution while at the same time producing a compact summary of the project data.

On the other hand an optimal solution cannot be guaranteed and there is no way of determining whether the solution is optimal or not.

The fundamental assumptions incorporated in the procedure are:

(*a*) The cost/day of time reduction is a convex function.
(*b*) The above makes it possible to approximate these curves with a piecewise linear curve.
(*c*) The objective is to minimize the cost of reducing the project time by a specified period.
(*d*) Activities are common to more than one path.
(*e*) There is a point of diminishing returns in cost savings against the efforts spent in approaching optimality.

The steps necessary to reach an optimal or near-optimal solution are outlined below:

(1) Set out project network.
(2) Identify all alternative paths and completion times.
(3) Determine the desired completion time.
(4) Determine the amount by which each path must be shortened to achieve the desired completion time.
(5) Estimate the cost slope (cost per unit of time saved) for each activity.
(6) Set out the time-cost matrix (see Figure 1):
  (*a*) Each row represents one activity.
  (*b*) Each column represents an alternative path (one need include only those paths that need shortening).
  (*c*) The last two columns show the cost slope of each activity and the maximum period of time by which it can be shortened.
  (*d*) Column totals constitute the minimum amounts by which each path must be shortened.
  (*e*) In each column cross out those activities not included in that path.
(7) Determine the effective cost slope of each activity by modifying the actual cost slope as follows:
  (*a*) Determine the paths which have not yet been adequately shortened.
  (*b*) Divide the actual cost slope of each activity by the number of inadequately shortened paths which contain this activity. This is the effective cost slope.
  (*c*) Record this value for each activity in each column.
  (*d*) Revise the effective costs of the various activities whenever any path has been adequately shortened.
(8) Select the column that still has the greatest shortfall in time (initially this will be the critical path). Within that column, select the activity with the lowest effective cost slope which is still capable of being shortened. If this cost slope is common to more than one activity then discriminate in favour of: (i) activities common to the greatest number of inadequately shortened paths; (ii) activities which permit the largest time reduction.
(9) Allocate in the matrix as follows:

  Allocate as much time as possible to the activity selected at (8) above, subject to:
  (*a*) Ignoring paths that have been adequately shortened, time needed to shorten that path.
  (*b*) Time still being available for shortening the activity.
  (*c*) Smallest amount from (*a*) or (*b*) determines the time allocated to the selected activity.

  This step allocates as much time as possible to the selected activity without changing the effective cost slope or exceeding the available supply of the activity.
(10) Allocate the quantity determined above to each column containing that activity. When the supply of any activity is exhausted, this row is crossed out.
(11) Repeat steps (7) to (10) until all paths have been adequately shortened.

Professor Siemens then illustrates the procedure with a simple example from which the matrix illustrated in Figure 1 is extracted.

Investment/time relationships

The above procedure has attempted to optimize the time/cost relationships, but has not dealt with the investment in the project. If the shortening of the project time is accomplished without an increase in the volume of funds needed to finance it, then there will be an additional bonus since the profit will be earned on the same investment over a shorter time period.

If, as is quite likely, the speed-up in time for the completion of the project results in an increased level of investment but over a shorter period of time, then the project proposals should be further evaluated from the point of view of the effect that they will have on the return on contract investment.

Figure 1
Time-cost matrix part-way through SAM procedure

Activity	Paths requiring reduction				Cost slope	Time reduction possible (supply)
	014	0124	01234	0234		
0–1	3 5	3 5	3 5		9	5
0–2				2	2	4
0–3					4	3
1–2		1	6 1		6	7
1–4	3				3	7
2–3			3·5	3·5	7	5
2–4		1			1	5
3–4			4	4	8	7
Time reduction required (demand)	6	6	16	7		

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Objectives . . .

This book came to be written following a discussion between a partner in a well-known firm of chartered accountants and the then Chairman of the Education Committee of The Institute of Chartered Accountants in England and Wales. They agreed that it might be helpful for students to have available to them a new book, setting out much of what is included in the earlier book, *Manual of Auditing*, but with a greater degree of explanation and example.

The book has two objectives. It is designed to provide students with an understanding of the principles of auditing and of the practical application of those principles which they will encounter in their daily work in professional firms. It is also intended to be a textbook to be read by students in preparation for their examinations in that subject. With these objectives in mind, the principles and the reasons for adopting the suggested procedures have been explained in some detail, especially in Chapters 1 to 6 and in the introduction to each Chapter.

Auditing procedures have been illustrated in relation to the audit of a medium-sized company, and examples of audit documentation are given in the appendices. So long as the underlying principles are not forgotten, the procedures illustrated can readily be adapted for the purposes of larger, or smaller, audits. Chapter 16 indicates how the audits of different classes of business call for a varying emphasis in the application of the procedures which have been described in previous chapters of the book, and outlines the special problems encountered in these audits. Chapter 17 on Investigations provides an introduction to this subject which can be regarded as a specialized development of normal auditing. Special mention must be made of Chapter 18 on Case Law Relating to the Duties and Liability of Auditors.

The Statements of Standard Accounting Practices, the Recommendations on Accounting Principles, the Statements on Auditing and certain other papers issued by The Institute of Chartered Accountants in England and Wales are of special relevance to the content of this book.

COOPER'S STUDENT'S MANUAL OF AUDITING
will help to ensure Examination Success!

L OF AUDITING

. . . some specimen pages

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OTHER CURRENT ASSETS

Deposits

1032. Deposits required for services, su
telephone rentals, need not normally be
should see that such deposits are carrie
sheet and that they are not written off
when the deposit is made. Where de
substantial amount are made (e.g.
verified each year on the balance s
years, according to the circumstance
a certificate from the third party in

Local Authority Loans and Depo

1033. It is the practice for mos

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APPOINTMENT, DUTIES AND RIGHTS OF THE AUDITOR

Introduction

201. The Compan
auditor.

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n. The members, who are the
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SHARE CAPITAL, RESERVES AND BORROWINGS

Introduction

1101. The capital employed by a company i
normally comprises three principal elements:

(*a*) The share capital, subscribed in cash o
for acquisitions; it may be divided into
divisions are between preference ca
ordinary capital (usually called 'the e

(*b*) ained profits and other reserve
to the equity shareholde
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STOCK AND WORK IN PROGRESS

Introduction

901. The verification of the physical existence and the valuation of stock
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DEFERRED AND CURRENT LIABILITIES AND TAXATION

Introduction

1201. The auditor's verification of a company's liabilities is directed to ensuring that:

(*a*) All known and ascertainable liabilities of the company at the balance sheet date have been included in the accounts.

(*b*) Adequate provision has been made for any known liabilities, where the amount cannot be determined with substantial accuracy.

(*c*) All material contingent liabilities have either been provided for or, if no loss is expected to result, stated in a note to the accounts.

1202. A particular difficulty in relation to verifying liabilities results from the time-lag between acceptance of goods or the performance
and the arrival of the related invoices and their
the books. The company must make
with this time-lag so that all
up in the accounts
of such

STUDENT'S MANUAL OF AUDITING

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Chapter 18 on 'Case Law Relating to the Duties and Liability of Auditors' was written by Patrick Phillips of Gray's Inn and the Western Circuit, Barrister-at-law.

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Taxation Cases

CIR v. Anderson

In the High Court of Justice (Chancery Division) – March 5th, 1971

(Before Mr Justice FOSTER)

Surtax – Life policy – Single premium – Surrender of policy – Sum from insurance company – Whether clause for increasing sum assured was binding – Whether that clause varied insurance contract after March 19th, 1968 – Whether it merely quantified sum assured – Income Tax Act 1952, section 219 – Finance Act 1968, section 16.

On March 13th, 1968, the taxpayer's solicitors wrote to Abbey Life Assurance Co Ltd enclosing an application form signed by the taxpayer for an Abbey single premium bond at a premium of £5,000, and enclosing also a cheque for that amount. On the back of the form was a declaration by the taxpayer that she was acting as trustee for another person. The Abbey Life replied on March 16th to the effect that owing to the large number of applications for Abbey bonds, the company would be unable to process them all before March 19th; that it was willing to accept the taxpayer's application on the basis that the minimum sum assured was limited to 75 per cent of the premium or the value of the units allocated to the policy, whichever was the greater; and (by 'the asterisk clause') that the company would consider increasing the minimum sum assured upon the receipt of further medical evidence as to the health of the taxpayer. If the offer was acceptable, the applicant was to sign at the foot of the page of the duplicate of the letter. The duplicate letter was duly signed by the taxpayer on March 18th; was put in the post on March 19th, and was received by Abbey Life on the following day.

On May 29th, 1968, Abbey Life received a medical report on the taxpayer's health, and evaluated it in accordance with its usual actuarial and underwriting principles; and on June 12th, Abbey Life wrote a letter proposing to add £1,250 to the minimum sum assured. This letter also enclosed the policy. On December 20th, 1968, the taxpayer sent to Abbey Life a request to surrender the policy, and on January 6th, 1969, the company sent to the beneficiary a cheque for £5,748 as the surrender value. This amount was based on the value of the investment units allocated to the policy, as the minimum sum assured was payable only on death.

The taxpayer was assessed to surtax in a sum including the excess of £748 for 1968–69.

It was contended for the Revenue that the asterisk clause was a legally binding provision for varying and increasing the sum assured; and that for tax purposes the policy had, therefore, to be treated as made after March 19th, 1968, because of section 16 of the Finance Act 1968. It was contended for the taxpayer that the asterisk clause was merely a formula for arriving at the minimum sum assured; and that it did not vary the original insurance contract. The Special Commissioners decided in favour of the taxpayer, and reduced the assessment by £748.

Held: the Special Commissioners' decision was correct.

Secretary of State for Employment and Productivity v. Clarke, Chapman & Co Ltd

In the High Court of Justice (Queen's Bench Division) – March 24th, 1971

(Before the Lord Chief Justice (Lord PARKER OF WADDINGTON), Lord Justice WIDGERY and Mr Justice BEAN)

Selective employment tax – Refund – Headquarters of business – Employees working at another place – Whether employed in or from an establishment – Selective Employment Payments Act 1966, section 1 – Administration of Justice Act 1969, section 12.

The company's headquarters were at Gateshead where it carried on business as a marine and electrical engineer and boilermaker. It had a large establishment there including a factory, and all the administration of the business was carried on there. Part of the business was the manufacture and installation of large electrical units.

In 1965 the company began to install four 500 megawatt generating units at Fawley and the work was expected to last four years, but owing to delays it will last longer. The value of the contract to the company was approximately £17 million. For the purposes of carrying out this work, buildings had to be erected on the site at Fawley as offices, canteen and general accommodation for the men who were working there. These buildings were of a temporary character and could be removed and possibly used elsewhere.

When work at the Fawley site began, the number of men employed was 65; by 1967 the number had risen to 267; in December 1968 it was 300; and in 1969 the number was beginning to decline and was 277. Forty per cent of the men were recruited locally but no recruitment of a worker was possible without the prior approval of head office at Gateshead. The resident engineer could not depart from a plan prescribed by head office without the latter's consent, and the site construction manager visited the site as often as possible. The resident engineer was directly responsible to him, and could not make purchases of more than £50.

The Industrial Tribunal decided that, by virtue of the control exercised from head office, the site at Fawley was not a place in or from which an employment was carried out and that therefore no establishment had been shown to exist there.

Held: having regard to the fact that the company intended to work at the Fawley site for as long as four years, and to the organization set up there, there was a sufficient degree of permanence to justify the conclusion that it had an establishment there; and that the employment of the workers at Fawley was an employment in or carried out from an establishment there; but in view of the decision of the Court in *Babcock & Wilcox (Operations) Ltd* and the practice of keeping in line with the Courts of Scotland in taxation cases, that decision ought to be followed with the result that the appeal had to be dismissed.

FINANCE AND COMMERCE

Vavasseur's Rise to New Prominence

'J. H. VAVASSEUR & CO LTD can be defined as the holding company of a number of subsidiaries which operate in the banking, financial and service sectors. For ease of identification, it is generally referred to as a financial group.' The words are Mr F. C. Rowan's, chairman of the Vavasseur company, whose reorganization and rise to new prominence has been one of the features of the City of London's business community in the past few years.

Profits were a mere £45,000 back in 1967, rising to £178,000 in 1968, £348,000 in 1969 and £914,000 in 1970. Earnings per share were 0·87p in 1967, rising to 5·12p in 1968, 6·06p in 1969 and 12·76p last year. Over this period the group has been vastly changed.

The company, as Mr Rowan comments, has its origins in traditional East Indian merchanting and commodity trading and was founded in 1862. For more than a century Vavasseur remained a principal in the commodity markets of the world before converting into a company operating mainly in the financial field. It was only in the past year that the final termination of the traditional activities came about.

The present board seeks to provide the broadest possible range of financial services to the business and professional community and the plan is 'to expand into new and complementary financial areas'.

Incentives

Responsibility for all group activities rests with more than 40 senior executives. Each individual company in the group is regarded as a profit centre operating under a full-time managing director or chief executive reporting directly to the main board. It is acknowledged that the success of a sophisticated banking and financial services group must depend largely on recruitment and continuity of high calibre management, and a share incentive scheme offers executives a direct stake in the group's future.

The recently issued report and accounts, from which this week's reprint is taken, includes full reports on each particular activity of the group. The main 1970 headings were banking, tax planning and financial management, foreign exchange broking, confirming, metal broking, holiday finance, property development, contract advertising, unit trust and management services.

During the current year new headings have been added in the form of management and personnel consultancy, insurance premium finance, mortgage finance, shipbroking and, finally, life assurance through a joint company with Trident Insurance.

These developments have largely come through acquisitions. Mr Rowan comments that over the group as a whole 'expansion will be achieved by means of organic growth within each subsidiary of the Group, by diversification into new areas within the financial sector through the formation of new companies and by acquisition'.

New markets

The view in the Vavasseur boardroom is that the years ahead will see a more international approach to investment and therefore the expansion of interests overseas is actively sought. This expansion will provide, as well as further earnings growth, useful bases in specific markets where investment opportunities may be outstanding. The experience gained in operating overseas should greatly benefit the UK business and its clients.

The immediate expectation is for another year of expansion and earnings growth and it is clear that the future growth and success of the organization will turn to a considerable extent on the continued calibre and success of management. It could be said that Vavasseur is a young executive's organization and, as such, can attract qualified executives away from the older established and considerably larger merchant banking organizations where the eager young man may feel that promotion is more a matter of time rather than ability.

In the immediate future, the present growth urgency can undoubtedly be maintained and developments can be considered well within the scope of present management capacity. There is undoubtedly a market for financial services outside that covered by the big-name merchant banks.

Recruitment

There are already indications that expansion will bring problems of recruitment. Under the tax planning and financial management heading, the First Investors and Savers Group planned to open four more provincial offices last year. But recruitment of staff of the right calibre proved difficult and the new offices will not be operative until the middle of this year – the offices being in Manchester, Birmingham, Southampton and Norwich.

But First Investors and Savers is stated now to have 'a highly experienced professional team providing all the specialized skills required to advise clients how to maximize their spendable income and improve their capital position'.

On the main board the accountancy profession is represented by Mr A. D. Stark, F.C.A., and Mr G. A. Thomas, M.A., F.C.A. They help guide the policy and progress of a company making a considerable impression in the City in many areas where the established order may have lost a sense of urgency and of the need for quick as well as efficient service.

It may be cynical to consider Vavasseur in terms of a financial services supermarket as against the traditional

City merchant banking department store, but there is something to it.

Computerized Shoes

THE shoe trade, particularly the women's shoe trade – or is it ladies'? – is wide open to the risk inherent in the fickle favour of fashion. Applying computers to the tracing of changing demand may seem an added risk to those whose computer faith is not entirely 100 per cent. But the Lotus shoe company has decided to introduce gradually a computerized system within the group.

Mr James D. Spooner, the chairman, comments that 'Once installed and operating efficiently, this should enable management to react quickly to changes in fashion demand which can drastically alter the requirements of production and materials'. The computer system will begin with the retail division and will then be applied to the wholesale and production operations.

The decision comes after a year during which an increase from £191,403 to £339,510 in pre-tax profits masked a considerable disparity between the success of the footwear production and wholesaling divisions and the poor performance of the retail division. For that division, a new general manager has been appointed and an appraisal of all retail branches is being carried out.

Application of a new stock valuation basis from the beginning of 1970 means that Lotus's stock is now written down on a consistent basis dependent on the age and fashion content irrespective of the current ticket price. Revaluation of the stock at January 1st, 1970, on that basis required a non-recurring write down of £227,946 charged against fashion merchandise reserve.

Had the new basis been used in 1969, profits for that year would have been reduced by some £65,000. Conversely, had the old basis been adopted for 1970, the pre-tax profit for that year would have been reduced by £86,000.

Mr Spooner in his statement with the accounts says that in addition to the £228,000 transferred from fashion merchandise reserve, over £300,000 was written off stocks during the 1970 financial year and management is now confident that stocks, standing at £2,901,073 in the accounts against £3,503,273 previously, are better balanced than hitherto.

Expenses

FIRM words on the subject of company expenses are written by Mr J. H. Jacobs, chairman of John I. Jacobs & Co, the shipping concern. Mr Jacobs records that in the Jacobs company 'there are no cars on the strength, nor any entertaining, travelling or other expenses allowed which are not necessary for furthering a business of our type and size'.

Mr Jacobs is 'sorry to say' that he does not think this to be always so with all concerns. He considers it is a pity that because of what he believes to be the considerable abuse of business expenses which are sometimes allowed against company profits before tax is levied on them 'the community at large undoubtedly has to pay more taxation than would otherwise be the case'.

He would 'like to see the business world setting a good example to everyone for straight dealing in all its affairs'. Mr Jacobs deplores the apparent lack of responsibility and personal discipline that the absence of the good example implies.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31st December, 1970

	£	£	1969 £	£
Group profit before taxation (Note 2)		914,782		347,927
Exceptional profits less losses		—		110,602
		914,782		458,529
Taxation				
Based on the profit for the year				
United Kingdom Corporation tax at 42·5% to 31st March, 1970 and 40% thereafter (1969 45%), less double tax relief £1,400 (1969 £12,109)	376,248		144,498	
Overseas Tax	2,416		8,269	
	378,664		152,767	
Prior year adjustments	(11,840)		—	
		366,824		152,767
Group profit after taxation		547,958		305,762
Minority interests		32,411		37,467
Profit available for distribution		515,547		268,295
Dividends (gross)				
Preference 5½% (1969 5%)	5,500		5,000	
Ordinary on 3,998,207 shares				
Interim paid 5% (1969 5% on £550,000 ordinary stock)	49,978		27,500	
Final proposed 10% (1969 5% on 3,506,207 shares)	99,955		43,828	
		155,433		76,328
Profit for the year retained				
Holding Company	174,462		3,879	
Subsidiaries	185,652		188,088	
		£360,114		£191,967

J. H. VAVASSEUR & CO., LIMITED

AUDITORS' REPORT

To the Members of
J. H. Vavasseur & Co. Limited

In our opinion the accounts and notes 1-14 set out on pages [705–708] give, so far as concerns members of J. H. Vavasseur & Co. Limited, a true and fair view of the state of affairs as at 31st December, 1970, and of the profit for the year ended on that date, of the Company and of the Group, and comply with the Companies Acts 1948 and 1967. The accounts of certain subsidiaries have been audited by other firms.

Price Waterhouse & Co.
Chartered Accountants,
3, Frederick's Place,
Old Jewry, London, E.C.2.

5th April, 1971.

J. H. VAVASSEUR & CO., LIMITED
CONSOLIDATED BALANCE SHEET
31st December, 1970

	Note	£	£	1969 £	£
Ordinary Shareholders' Interests					
Ordinary shares	3		1,004,333		*550,000*
Share premium account	3		2,086,948		*88,500*
Unrealised surplus on revaluation of leasehold property	6		440,079		*223,079*
Undistributed profits	5		774,363		*414,249*
			4,305,723		*1,275,828*
Preference Shares	3		100,000		*100,000*
			4,405,723		*1,375,828*
Minority Interests			257,229		*180,649*
9 per cent Unsecured Loan Notes 1972/80	4		300,000		—
Deferred Taxation			110,239		*123,866*
Corporation Tax Payable 1st January, 1972			202,942		*33,416*
Current Liabilities					
Bank loans and overdrafts (£1,940,625 secured *£187,473 in 1969*)		2,465,515		*1,007,676*	
Balances with banking subsidiary		316,812		*227,797*	
Creditors and accruals		1,138,929		*1,855,217*	
Taxation		398,839		*122,493*	
Proposed dividend		99,955		*71,328*	
			4,420,050		*3,284,511*
			£9,696,183		*£4,998,270*
Premiums less Discounts on Acquisition of Subsidiaries			2,413,935		*349,264*
Fixed Assets	6		677,539		*371,467*
Investments in Associated Companies	7		50,000		*58,282*
Net Assets of Banking Subsidiary	9		550,652		*531,791*
Current Assets					
Properties being developed and held for sale at lower of cost and net realisable value		765,567		—	
Stocks at lower of cost and net realisable value		752,744		*54,378*	
Investments	10	232,831		*1,123,636*	
Balances with banking subsidiary		753,746		*230,698*	
Debtors and prepayments		2,811,765		*2,118,051*	
Bank balances and cash		687,404		*160,703*	
			6,004,057		*3,687,466*
			£9,696,183		*£4,998,270*

F. C. Rowan
A. D. Stark } *Directors*

J. H. VAVASSEUR & CO., LIMITED
BALANCE SHEET
31st December, 1970

	Note	£	£	1969 £	£
Ordinary Shareholders' Interests					
Ordinary shares	3		1,004,333		*550,000*
Share premium account	3		2,086,948		*88,500*
Unrealised surplus on revaluation of leasehold property	6		440,079		*223,079*
Undistributed profits	5		508,409		*333,947*
			4,039,769		*1,195,526*
Preference Shares	3		100,000		*100,000*
			4,139,769		*1,295,526*
9 per cent Unsecured Loan Notes 1972/80	4		300,000		—
Corporation Tax Payable 1st January, 1972			—		*851*
Current Liabilities					
Bank loans and overdrafts (£NIL secured *£187,473 in 1969*)		100,035		*546,716*	
Creditors and accruals		131,297		*274,501*	
Taxation		1,080		*3,148*	
Proposed dividend		99,955		*71,328*	
			332,367		*895,693*
			£4,772,136		*£2,192,070*
Fixed Assets	6		514,560		*296,854*
Investments in Associated Companies	7		—		*58,282*
Interest in Subsidiaries					
Shares	8	4,589,137		*1,572,065*	
Amounts owing by subsidiaries		141,452		*36,415*	
		4,730,589		*1,608,480*	
Less: Amounts owing to subsidiaries		817,028		*369,975*	
			3,913,561		*1,238,505*
Current Assets					
Stocks at lower of cost and net realisable value		—		*41,747*	
Debtors and prepayments		321,251		*547,112*	
Investments	10	6,921		*7,882*	
Bank balances and cash		15,843		*1,688*	
			344,015		*598,429*
			£4,772,136		*£2,192,070*

F. C. Rowan
A. D. Stark } *Directors*

J. H. VAVASSEUR & CO., LIMITED

NOTES TO ACCOUNTS

1 Turnover

The turnover of the group, comprising commissions, fees and sales amounted to £5.8m (*1969 £12.8m including £11.5m in respect of businesses sold or closed down*)

2 Other Profit and Loss Account information

	£	*1969* £
(a) The group trading profit for the year is stated after crediting		
Income from investments—unquoted	4,000	*23,313*
—quoted	754	*36,644*
(b) and after charging		
Auditors' remuneration	22,295	*11,285*
Depreciation	31,512	*22,355*
Interest payable—bank and other short term borrowings	182,435	*135,851*
9 per cent unsecured loan notes 1972/80	22,825	—
Directors' emoluments:		
Fees	167	*943*
Management emoluments	33,035	*22,439*
Payments to former directors	3,950	*14,369*
	37,152	*37,751*
Payments on termination of service agreements	1,333	*32,500*
	£38,485	*£70,251*

(c) Individual directors' emoluments, excluding pension contributions and payments on termination of service agreements, were as follows:

Chairman	2,708	*5,312*
Highest paid director (*1969 two directors*)	7,042	*6,000*
Other directors	Number	*Number*
£		
0-2,500	1	2
2,501-5,000	2	2
5,001-7,500	2	–

3 Share Capital and Share Premium Account

	Authorised £	Issued £	Paid-up £	*1969 Issued and fully paid* £
Ordinary shares of 25p each				
Fully paid	1,450,022	999,552	999,552	*550,000*
Partly paid ((c) below)	49,978	47,812	4,781	—
	£1,500,000	£1,047,364	£1,004,333	*£550,000*
5½ per cent (*1969 5 per cent*) cumulative preference shares of £1 each fully paid	£100,000	£100,000	£100,000	*£100,000*

(a) At an extraordinary general meeting of the Company held on the 20th February 1970 the total authorised share capital of the Company was increased from £900,000 to £1,600,000 and the rate of dividend on the 5 per cent cumulative preference shares of £1 each was increased to 5½ per cent with effect from the 1st January, 1970.

3 Share Capital and Share Premium Account (continued)

(b) Movements in ordinary shares of 25p each and share premium account during the year were:

	Ordinary share capital £	Share premium account £
Balance at 1st January, 1970	550,000	88,500
Issued during the year:		
(i) 1,279,007 issued fully paid at £1,81 each in part consideration for 100 per cent interests in the issued share capitals of J. H. Vavasseur (Foreign Exchange Holdings) Limited, formerly Harlow & Jones (Investments) Limited, and E. B. Meyer (Brokers) Limited	319,752	1,998,448
(ii) 27,200 issued fully paid in consideration for a 51 per cent interest in the issued share capital of Roeday Properties Limited	6,800	—
(iii) 492,000 issued fully paid in consideration for a 100 per cent interest in the issued share capital of Vavasseur Unit Management Limited, formerly Investment Assured Securities Limited.	123,000	—
(iv) 191,250 issued to senior employees—amount paid up ((c) below).	4,781	—
Balance at 31st December, 1970	£1,004,333	£2,086,948

(c) The directors have been authorised to issue to senior employees of the group, ordinary shares of 25p each under the J. H. Vavasseur Group Incentive Scheme. The price per share is the middle market quotation of ordinary shares of the Company at specified dates and is payable as to 2½p on subscription and the balance normally three years after the initial offer. The average maximum subscription price for the shares issued under the scheme in 1970 is £1.29 per share. These shares do not carry dividend and voting rights until after the balance of the subscription price is paid but in any case not before the elapse of three years from the initial offer.

4 9 Per Cent Unsecured Loan Notes 1972/80

The notes are repayable at par (a) at the holder's option on 31st December in any of the years 1972–80 (b) at the Company's option in any of the years 1975/80 and (c) as to any then outstanding on 31st December, 1980. Each £100 nominal of the notes carries the right to subscribe for 10 ordinary shares of 25p each of the Company at £2.25 per share on 31st July in any of the years 1971/80 or on repayment of the notes.

5 Undistributed Profits

The movements during the year were as follows:

	Group £	Company £
At 1st January, 1970	414,249	333,947
Profits of the year retained	360,114	174,462
At 31st December, 1970	£774,363	£508,409

6 Fixed Assets

	Cost or valuation £	Depreciation £	Net £	*1969 Cost or valuation* £	*Depreciation* £	*Net* £
Freehold land and buildings at cost	15,716	—	15,716	*3,839*	—	*3,839*
Long leasehold land and buildings at valuation ((c) below)	500,977	—	500,977	*275,000*	—	*275,000*
Short leasehold land and buildings at cost	10,962	114	10,848	—	—	—
Plant machinery and equipment at cost	247,811	97,813	149,998	*207,628*	*115,000*	*92,628*
	£775,466	£97,927	£677,539	*£486,467*	*£115,000*	*£371,467*
(a) Owned by:						
The holding company (including long leasehold property)	530,013	15,453	514,560	*324,824*	*27,970*	*296,854*
Subsidiaries	245,453	82,474	162,979	*161,643*	*87,030*	*74,613*
	£775,466	£97,927	£677,539	*£486,467*	*£115,000*	*£371,467*

J. H. VAVASSEUR & CO., LIMITED

NOTES TO ACCOUNTS (CONTINUED)

6 Fixed Assets *(continued)*

(b) Movements in cost, valuation and depreciation during the year were:

	Cost or valuation	Depreciation
	£	£
Balances at 1st January, 1970	486,467	115,000
Acquired with subsidiaries	71,279	32,946
Additions	126,128	
Revaluation of long leasehold property ((c) below)	217,000	
Items sold or scrapped	(125,408)	(81,531)
Charge for the year		31,512
Balances at 31st December, 1970	£775,466	£97,927

(c) The long leasehold property at America Square has been restated at £500,000 being the amount of a valuation made by D. E. & J. Levy as at 7th May, 1970 on the basis of its open market value with vacant possession. The surplus on revaluation of £217,000 has been added to Unrealised Surplus on Revaluation of Leasehold Property making a balance of £440,079 at 31st December, 1970. No provision has been made for any capital gains tax which might arise on disposal for the amount of the valuation.

7 Investments in Associated Companies

As at 31st December, 1970 the book amount of £50,000 represented the cost of a 50% investment in the share capital of Trident Investors Life Assurance Company Limited, incorporated in Great Britain. The shares of the profits attributable to this holding for the period since acquisition to 31st December, 1970 amounted to £510. The investments held at 31st December, 1969 were sold during 1970.

8 Subsidiaries

(a) Shares in subsidiaries are stated at cost, less amounts written off, other than the shares in Vavasseur Unit Management Limited and Roeday Properties Limited acquired during the year, which are stated at the par value of the Company's shares issued as consideration (see note 3)

(b) Principal Subsidiaries

	Class of Shares	Percentage Held
Contract Display Limited (The Harry Michaels Group)	Ordinary £1	82
E. B. Meyer (Brokers) Limited	Ordinary 5p	100
	Deferred £1	100
First Investors and Savers Limited	Ordinary £1	67
J. H. Vavasseur (Foreign Exchange Holdings) Limited	Ordinary £1	100
J. H. Vavasseur-Kirk Limited	Ordinary £1	74
	Preference £1	100
Roeday Properties Limited	Ordinary £1	51
	Deferred £1	51
Stavers and Anderson Ltd.	Ordinary £1	100
Travel Credit Limited	Ordinary 5p	100
	Deferred £1	100
The Vavasseur Trust Company Limited	Ordinary £1	100
Vavasseur Levetus Export Limited	Ordinary £1	100
Vavasseur Trading Co. Limited (incorporated in Ceylon)	Ordinary CRs. 10	100
Vavasseur Unit Management Limited	Ordinary £1	100

9 Net Assets of Banking Subsidiary

At 31st December 1970 The Vavasseur Trust Company Limited (the banking subsidiary) had net tangible assets of £550,652 (*1969 £531,791*) comprising:

	£	£	£	*1969* £
Assets				
Cash and bank balances		40,755		*23,442*
Money at call and short notice		1,762,480		*850,000*
Investments (see below)		387,170		*251,795*
Advances to customers and other accounts				
Group companies	316,812		*227,797*	
Others	2,067,672		*459,937*	
		2,384,484		*687,734*
		4,574,889		*1,812,971*
(Brought forward)		4,574,889		*1,812,971*
Liabilities				
Current, deposit and other accounts				
Group companies	753,746		*230,698*	
Others	3,270,491		*1,050,482*	
		4,024,237		*1,281,180*
		£550,652		*£531,791*

The investments comprised the following:

	£	*£*
Quoted in the United Kingdom—(market value £365,805)—*1969 £258,951*)	315,085	*251,795*
Unquoted securities at directors' valuation	31,454	—
Investment in freehold property held for sale, at cost, which is below estimated realisable value	40,631	—
	£387,170	*£251,795*

The quoted investments include an interest of 19.75% in the ordinary share capital of Siemssen Hunter Limited, incorporated in Great Britain.

10 Investments

Investments of the Group, other than in Associated Companies and those held by the banking subsidiary, comprised:

	£	*1969* £
Securities quoted in the United Kingdom at cost, *less* amounts written off (Market value £13,610—*1969 £1,288,471*).	13,268	*1,088,162*
Securities quoted overseas at cost, *less* amounts written off (Market value £147,715—*1969 Nil*).	147,569	—
Unquoted investments (Directors' valuation £71,994—*1969 £38,251*).	71,994	*35,474*
	£232,831	*£1,123,636*
owned by:		
The holding company	6,921	*7,882*
Subsidiaries excluding the banking subsidiary	225,910	*1,115,754*
	£232,831	*£1,123,636*

The securities quoted overseas include an interest of 49.9% in the share capital of Capital and Deployment Limited, a company incorporated in Australia.

11 Contingent Liabilities

Subsidiaries had contingent liabilities in respect of bills discounted of £779,203 (*1969 £695,969*).
A wholly owned subsidiary in Australia has an option to acquire certain shares at a cost of £46,000. The grantor of the option has the right to require the option to be exercised. The rights of both parties under the option expire on 30th June, 1971.

12 Guarantees

Guarantees given by the Company in respect of subsidiaries' bank borrowings amounted to £2,478,610 (*1969—Nil*). The Company has also given a guarantee to a bank for £300,000 (*1969—Nil*) in respect of the engagements of a subsidiary on the London Metal Exchange.
The Company has guaranteed the indebtedness of a third party to the extent of £240,000 (*1969—Nil*).

13 Commitments

(a) The Company has agreed to purchase on 1st April, 1974 the minority interest of 17.6% of the issued share capital of its subsidiary Contract Display Limited for a price based on the annual average of the net profits for the five years commencing 1st January, 1969.
(b) The Company has contracted to pay to Mr. J. G. Pinckney, a director of the Company, a further amount in 1972 as additional consideration for the purchase of certain shares in First Investors & Savers Limited, dependent upon the fair value of those shares as at 31st March, 1972.

14 Foreign Currencies

Foreign currencies are expressed in sterling at the official rates current at 31st December, 1970.

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HALIFAX BUILDING SOCIETY

Extracts from the Statement by

the President, Mr. Ian Maclean

presented at the

118th Annual General Meeting on 24th May 1971

1970 was a year of outstanding progress. The Society's assets increased by £308 million (or 18.3%) and at the 31st January 1971 amounted to £1,995 million. Since then the assets have exceeded £2,000 million. The first £1,000 million took 113 years to accumulate and the second £1,000 million a mere 4½ years.

Gross receipts from investors reached the record figure of £597 million and the resultant net inflow of £234 million was the highest ever recorded by the Society in any one year. The number of new investment accounts opened during the year (427,000) was also a record.

This highly satisfactory level of inflow enabled the Society to advance on mortgage during the year £387 million. This figure exceeded the previous year's record by £74 million.

1970 saw another notable achievement. For the first time in its history the Society completed over 100,000 new mortgages in a year, over 10,000 more than in 1969. The average amount advanced was £3,630 compared with £3,283 in 1969.

At 31st January 1971 the Society's reserves were just over £59 million or 2.96% of total assets. Liquid funds, at £349 million, represented 17.5% of total assets. Over half of these are invested in British Government Securities, the market value of which at the end of the year was over £8 million in excess of the book value.

The current scene is a projection of the experience of 1970, particularly of the latter half. The inflow of funds has continued to be highly satisfactory and the outflow on mortgage is currently at a higher level than ever before. The demand for mortgages remains very strong and there appears to be no sign of it slackening. The Halifax has so far had no difficulty in finding, in the demand for home-ownership, a more than adequate outlet for its funds. It is important that this matter be borne in mind in any consideration regarding the level of interest rates. In my view it would be wrong, by a premature reduction in rates, to create the possibility of another of the mortgage shortages which have been a feature of recent years.

The Budget has been generally welcomed, not least by building societies. Reduction in Corporation Tax to 40% and the halving of the Selective Employment Tax both give some welcome relief to our slender margins.

I welcome the abolition of the stamp duty on mortgages and the raising of the limits in respect of "Save as you Earn". I have noted the increase in the limit for the investment in National Savings Certificates and Premium Bonds and the introduction of a larger monthly prize for the latter. These are typical of the competitive factors which we have to bear in mind in considering the attractiveness of our own investment service and in particular of the interest rates which we offer. In the long run the Budget will probably prove most helpful to the objects which building societies stand for if it is successful in setting the scene for a real improvement in the country's economic position. These objects, which have remained unchanged over the years, are to offer encouragement to saving, investment and home-ownership and in themselves they have a stabilising influence. The success of the Halifax, and of the whole building society movement, is clear testimony to the extent to which they fill a growing public need. It is gratifying, for instance, to realise that approximately one in every twenty out of the total population of the United Kingdom, man, woman and child, has an account of one sort or another with the Halifax.

The postal strike started just before the Society's year end. We immediately established a courier service between Head Office and branches and this enabled our operations to continue comparatively unaffected. I would like to record the fact that throughout the strike mortgage cheques at the rate of over £1 million a day continued to be issued in order that purchases could be completed with as little delay as possible. Certain operations had to be postponed and the main one was the yearly despatch of statements of accounts to over 2½ million people. I much regret the resultant delay and inconvenience to members but it was certainly not of our choosing.

Last year I referred to the fact that investment accounts were being more and more actively used. This greater turnover of money, together with increased activity on the mortgage side, results in increased pressure on staffs and office space. In a number of areas it has been necessary to find more office space. Improvement or re-housing was completed last year in 29 centres and there are a further 25 similar operations being carried out or planned at the moment. The Society has opened new branches at Brentwood, Bury St. Edmunds, Hamilton, Kings Lynn, Stevenage and Westcliff-on-Sea and additional branches in Liverpool (Allerton), Sheffield and Wolverhampton. Development of the new Head Office building in Halifax is proceeding according to plan.

1970 also saw the completion of the transfer of all accounts to computer processing. Our next development in the computer field is to be the introduction of terminals in our branch offices which will establish a direct link between each branch and the central computer in Halifax.

HALIFAX BUILDING SOCIETY, HALIFAX, LONDON AND THE PROVINCES

CITY NOTES

SENTIMENT has always been a more forceful stock-market force than fact. But having risen some 25 per cent since the end of March, largely on sentiment in terms of anticipated reflation of the economy and new expansion by the end of the year, the stock-market is finding some difficulty in contriving more bullish sentiment about the prospect of Common Market entry.

There comes a time when the effect of sentiment on the stock-market has to be supported by fact. There is currently some slight danger of a gap developing between the two supporting forces.

A recent stockbroking survey of the food manufacturing industry, for example, took the view that the industry should put up a better performance in 1971–72 than it has done over the past few years. But when the survey came to look at share prices it came to the conclusion that only three out of eleven surveyed shares were worth buying because prices of the rest already discounted improvement prospects.

The gap between sentiment and fact is making 400 for the *Financial Times* Index a bit of a barrier. Part of the trouble is that a combination of shortage of stock and the size of recent buying took prices up too sharply. Whereas 400 by the end of the summer was a reasonable prospect, 400 by the beginning of it is pushing things too hard.

* * * *

ALTHOUGH the Take-over Panel may have established the Queensberry Rules of the take-over game there is still plenty of scope for bitter battles. Nothing could be more bitter than the battle between the Coral and Ladbrokes book-making and betting shop groups. Ladbrokes bid has been made in order to break up an intended merger between Coral and Mark Lane – another betting shop organization which was at one time the subject of take-over attention from the William Hill organization. The battle is being waged within the Take-over Panel's rules but it is a terribly hard fought business even so. One of the fiercest the City has seen.

* * * *

SAVE and Prosper Unit Trust group has offered its rival, M. & G. organization, the sincerest form of flattery by introducing its version of M. & G.'s split-level investment trust. Save and Prosper Linked Investment Trust has offered income and asset shares which will result in £10 million going into two of Save and Prosper's trusts – Scot-Yields and Investment Trust Units.

Like M. & G.'s scheme earlier this year, the new version will help put a better complexion on unit trust overall figures which, without these special operations, would be looking decidedly poor compared with last year.

* * * *

THE vote having been 'No' there is no doubt that the resolutions proposing stock exchange advertising and the admission of women as members will live long. Both proposals will come again, even in a year or two. But it was generally agreed that the margin of voting against the proposals was wider than had been expected – particularly on the advertising point where a close run thing had been anticipated.

RATES AND PRICES

Closing prices, Tuesday, May 25th, 1971

Tax Reserve Certificates: (26.4.71) Companies 4½%; 2½% surrendered for cash; Personal 4%

Bank Rate

Nov. 9, 1967	6½%	Feb. 27, 1969	8%
Nov. 18, 1967	8%	Mar. 5, 1970	7½%
Mar. 21, 1968	7½%	April 15, 1970	7%
Sept. 19, 1968	7%	April 1, 1971	6%

Finance House Base Rate – May 1st, 1971. 7½%

Treasury Bills

Mar. 19	£6·6416%	April 23	£5·7081%
Mar. 26	£6·6242%	April 30	£5·6844%
April 2	£5·8293%	May 7	£5·6840%
April 8	£5·7849%	May 14	£5·6517%
April 16	£5·7561%	May 21	£5·6276%

Money Rates

Day to day	5⅞–6%	*Bank Bills*	
7 days	4¼–6%	2 months	7–7⅛%
Fine Trade Bills		3 months	7–7⅛%
3 months	7½–8%	4 months	7–7⅛%
4 months	7½–8%	6 months	7 1/16–7 3/16%
6 months	7¾–8%		

Foreign Exchanges

New York	2·4192	Frankfurt	8·4925
Montreal	2·4409	Milan	1506·95
Amsterdam	8·5515	Oslo	17·1860
Brussels	120·05	Paris	13·3600
Copenhagen	18·1305	Zürich	9·8800

Gilt-edged

Consols 4%	44¼	Funding 6½% 85–87	81¾
Consols 2½%	27½	Savings 3% 65–75	88 3/32
Conversion 3½%	38¼	Treasury 9% 1994	96⅛
Conversion 5¼% 1974	96¾	Treasury 6½% 1976	98¼
Conversion 6% 1972	100 1/32	Treasury 3½% 77–80	74⅝
Funding 3½% 99–04	45¾	Treasury 3½% 79–81	73⅝
Funding 4% 60–90	97¾	Treasury 5% 86–89	66¾
Funding 5¼% 78–80	83⅞	Treasury 5½% 08–12	62⅞
Funding 5½% 82–84	81¼	Treasury 2½%	27⅜
Funding 5¾% 87–91	71¾	Victory 4%	96¾
Funding 6% 1993	71¾	War Loan 3½%	37½

Letters

Recte Numerare: R.I.P.

SIR, – The most striking feature of the ICA's new *List of Members* is not the addition of numbers to members' names, but the omission of *Recte Numerare* from the Institute's insignia.

While it may indicate nothing more than the Council's temporary difficulties with its cash-book, I believe that it has more permanent implications: it reflects the transition from philomathy to scripture.

For more than a quarter of a century, the Council has issued recommendations to assist members in their own zealous pursuit of 'the right figures' for depicting the reality confronting them in their work. But now, this individual pursuit of truth is to be abandoned in favour of 'mandatory standards' of abstract truths, whose universality may be questioned only at peril of disciplinary proceedings.

The first of such standards of 'absolute truth' has been questioned by the two largest British companies – ICI and BP; and while the finance director of ICI is immune, Sir Eric Drake will, presumably, be called upon to account for his heresy – 'the proposed standard method of reporting would in some ways be misleading'.

More serious, however, was the heresy of Jim Slater – at the 1970 Cambridge summer course – when he referred to 'the super-profit arising from inflation'. He would do well to dissemble his expertise, if and when the Council issues a 'mandatory standard' on 'inflation accounting', which, according to Sir Ronald Leach (your issue January 21st), 'normally resulted in a lower figure of published profit than conventional methods'.

My own belief is that the objectivity of Recommendation 15 will enable it to survive the sustained attacks upon it – including the planned indoctrination course in 'inflation accounting' at Cambridge in September. If not, however, the removal of *Recte Numerare* from our insignia would seem to have the merit of avoiding possible conflict with the Trades Descriptions Act 1968.

Yours faithfully,

Cheam, Surrey. JACK CLAYTON, F.C.A.

Sale of Goods

SIR, – In the Current Law column of your edition of May 13th last there appeared a report on the House of Lords decision in the case of *Christopher Hill Limited v. Ashington Piggeries Limited*. We acted for the plaintiffs in this action throughout and would wish to draw to your attention that the report is inaccurate in various respects.

First, and most important, you have completely omitted to mention the fact that there was a third party in this action, namely Norsildmel, the Norwegian merchants, who supplied the toxic herring meal. This is a very material omission since, in fact, it is these merchants who were found by the House of Lords liable to indemnify Christopher Hill Limited for any damages they had to pay to Ashington Piggeries Limited, and also to pay all costs.

We would, moreover, refer you to the judgment of Lord Diplock (1971) 1 Lloyd's Law Reports at page 273: 'My lords, it was no one's fault that the Norwegian herring meal which was an ingredient of the compound feeding stuff for mink made the food poisonous to those animals. At the relevant time the possibility of the chemical reaction which produced the toxic substance DMNA in the course of manufacture of the meal was unthought of. In the then state of knowledge, scientific and commercial, no deliberate exercise of human skill or judgment could have prevented the meal from having its toxic effect upon mink. It was sheer bad luck.'

Moreover the *ratio decidendi* was not as stated by you that A was entitled to rely upon H not to produce a food which was poisonous to mink. That is a very considerable over-simplification. What, in fact, was held by the House of Lords is that although Ashington Piggeries Limited relied upon their own expertise and not on that of Christopher Hill Limited for the suitability of the food for mink, they were entitled to rely upon Christopher Hill Limited when manufacturing the mink food to use ingredients which were suitable for those other animals for whom Christopher Hill Limited normally compounded animal foods. Their lordships held that the toxic herring meal would have rendered food unsuitable for other animals as well – although there was no evidence produced that any such other animals actually suffered damage as a result of eating foods in which the herring meal was an ingredient. It was because of this unfitness for other animals and *not* for mink that section 14 (i), Sale of Goods Act 1893, liability was found against Christopher Hill Limited despite the fact that they could not have known that the herring meal was in any way toxic.

It is unfortunate that your article through these inexactitudes should have given the impression that Christopher Hill Limited were not only to blame but were the sole culprits and we trust you will publish the necessary correction.

Yours faithfully,

METSON CROSS & CO,

London EC3. *Solicitors.*

[Messrs Metson Cross & Co are, of course, perfectly correct in their allusion to the third party in this case and to the element of what Lord Diplock described as 'sheer bad luck'. Both of these points emerge quite clearly from the full report at [1971] 1 All ER 847, to which we included a reference.

The aim of our Current Law columns is to highlight features that are of particular interest to the accountancy profession – in the present case, the liability under section 14 of the Sale of Goods Act. Whilst we naturally regret any embarrassment to Messrs Metson Cross & Co and their clients, we trust that other readers will have found our note reasonably appropriate for its intended purpose. – EDITOR.]

Student Roundabout

NINE MONTHS' FULL-TIME COURSES

FURTHER nine months' full-time courses have been approved by The Institute of Chartered Accountants in England and Wales from September 1971 at the Polytechnic at Huddersfield and the Oxford Polytechnic.

The course at Huddersfield is located in the Department of Business and Management Studies. The head of the department is Mr P. S. Hails and the senior course tutor is Mr B. Murphy.

At the Oxford Polytechnic the course is in the Department of Management and Social Sciences. The head of the department is Dr C. A. Horn and the principal lecturer in charge of the course is Mr I. M. McKinneley.

Both colleges offer facilities for student residence.

SHEFFIELD'S SUMMER COURSE

FOLLOWING the success of the three-day residential course at Belmont Hall last year, the Sheffield and District CASS is arranging in conjunction with the joint tuition committee of the senior Society, a non-residential summer course for Final Part I and II students to be held at The Totley Hall Training College from Thursday, July 22nd, to midday Saturday, July 24th.

Lecturers from Caer Rhun Hall will provide intensive tuition and those attending will be supplied with specially prepared manuals with comprehensive notes and illustrations. The programme will consist of lectures on estate duty, executorship and taxation – Schedule D, for Part I students; capital gains tax, costing, and consolidated accounts, for Part II students. Lectures will finish at 4.30 p.m. and will be followed each evening by directed studies. Lunch and evening meals will be provided and the bar facilities will enable students to meet in a social atmosphere.

The cost of the course will be £4·50 inclusive of all meals. This modest charge is achieved only by reason of a substantial grant from the joint tuition committee and it is hoped that as many members as possible will attend the course. Principals are expecting their articled clerks to discuss the course with them. Those members wishing to attend should inform Peter Flint, Secretary, Joint Tuition Committee, c/o 22 Norfolk Row, Sheffield S1 2PA, by Monday, June 7th.

LONDON COMPUTERIZES ITS RECORDS

THE membership records of the London CASS are in process of being computerized. It is hoped to complete the changeover, which is being carried out in phases, by July 15th and to have the system fully operational by October 1st.

It is unlikely that many members have been involved in a changeover to a computer system and those who would care to experience and share in the exercise should contact the Society's chairman, Stephen C. P. Parry, B.A., A.C.A., 43 London Wall, London EC2, as soon as possible. They should indicate whether they will be free on Saturday, and/or Sunday, July 3rd and 4th – the week-end chosen for the conversion. Refreshments will be available all day, both days.

EXETER ACTIVITIES

THE second 'industrial' visit for members of the Exeter CASS takes place on June 16th. The establishment on this occasion will be Whitbreads Brewery at Tiverton and members are requested to be present 'in strength' at the brewery promptly at 11.30 a.m. Principals should not regard the visit as an excuse for their articled clerks 'to have a good time', but as part of the Society's necessary programme of semi-social activities. The committee devote much of their free time to organizing Society functions and support and encouragement is needed not only from members but principals as well.

At Broadclyst, on June 25th, at 6.30 p.m., the Society is taking on the staff of the finance department of Exeter University in a cricket match. Further details for players and/or spectators are available from the secretary, A. J. Brunt, c/o Turquand Youngs & Co, Libra House, Fore Street, Sidmouth.

MR V. R. ANDERSON, F.C.A.

THE death on Monday of last week at the age of 66 of Mr V. R. ('Ronnie') Anderson, F.C.A., could be likened to the extinguishing of a beacon which for so many years had successfully guided countless students into the profession.

Educated at Christ's Hospital, Ronnie Anderson was admitted to membership of The Institute of Chartered Accountants in England and Wales in 1927, being awarded the Second Certificate of Merit and the Quilter Prize. He held various appointments prior to the last war with Cooper Brothers and General Motors, both in the UK and abroad.

At the outbreak of war he enlisted in the Royal Artillery and served in North Africa and Italy, and was twice mentioned in dispatches. Education was his forte, and it was not surprising that he subsequently transferred to the Royal Army Education Corps, being demobilized with the rank of Lieutenant-Colonel.

Ronnie Anderson taught accountancy throughout his professional career, starting immediately he qualified by lecturing to members of the Liverpool Society. It was in 1947 that he entered the 'private sector' when he opened his 'school' – now at Caer Rhun Hall. He possessed, among others, two outstanding qualities: that of making difficult problems appear simple and an unusual ability of treating everyone

as an equal – he never 'talked down', even to the dimmest student.

He was a pioneer in the setting-up of private schools in accountancy tuition and it is a significant tribute to his success that many of the leaders of other 'schools' up and down the country were taught by him and influenced by his methods of tuition.

A prodigious writer, he was the author of numerous student textbooks covering every aspect of accountancy, and at the time of his death had almost completed a manual on management accounting. His son, John, as well-known and liked by students as his father, takes over the running of Caer Rhun, together with the practice of V. R. Anderson & Co, of which his father was senior partner.

An Appreciation

'Roundabout' is indebted to Stuart McDonald, B.A., A.C.A., immediate Past-President of ACASS, for the following appreciation:

The doyen of the private sector of accountancy tuition, Ronald Anderson, F.C.A., who died on May 17th, had been seriously ill for a number of months. Until his death he was principal of Caer Rhun Hall, one of the oldest and best known accountancy tuition colleges in the United Kingdom, and his remarkable teaching talents were well known within the profession in this country and throughout the world.

He started the college at Penmaenmawr on the North Wales coast in 1947 and moved it to its present home, Caer Rhun Hall in the Conway Valley, in 1953. His gift for explaining and teaching complex accounting techniques and principles was admired by many students, and those who know Caer Rhun were regularly amazed by the high pass rate for its students. One of his legacies is a series of accounting manuals remarkable for their clarity of exposition.

He was always searching for better ways of teaching students. As recently as March 25th he gave a presentation to the Education Committee of the Institute to demonstrate a correspondence course linked with audio visual aids. This was his last and only public appearance in the past twelve months.

Ronald Anderson will be remembered with affection by the many generations of students who have passed through Caer Rhun as a friend and teacher whom they could readily approach with their problems.

BIRMINGHAM'S SUMMER DANCE

THE enterprising Birmingham CASS are again putting on a major social function, this time it's their summer dance on Friday, June 11th. Following the Society's declared aim of providing first-class entertainment and value for money, they have chosen the up-to-date surroundings of the Top Rank Suite. All those attending will be assured of a varied evening's entertainment.

Music is being provided by the 'big sound' of Joe Ward, and contrasted with this the Society have hired a leading steel band. Also, it is rumoured that a certain lady straight from the West End will be dancing in a distinctly Eastern style. By 2 a.m. it is anticipated that all will have felt their £1 to have been well spent indeed. Tickets are available from the Library, Steelhouse Lane, Birmingham B4 6EA, or any committee member.

FLOW CHARTING AND NETWORK PLANNING

ANOTHER of the series of successful two-day specialist courses – this time organized by Arthur Young McClelland Moores & Co – was held at Winchester House last Thursday and Friday attended by a large number of members of London CASS.

The first day of the course was devoted to flow charting and the techniques for use in auditing and systems analysis, and the second day was given up to the consideration of network planning – otherwise called critical path methods – and project evaluation and review techniques.

Subjects considered throughout the course were: historical introduction to network planning, a method of project control; the principles of network construction; course exercises in the preparation of networks of varying complexity; network planning in practice; the use of the computer in source allocation and on-line project control, and the relevance of network planning to the accountant. The speakers included Mr B. J. Rutteman, B.SC., A.C.A.; Mr A. P. Rackham, B.SC., M.I.M.C., Mr C. J. Calvert, B.SC.(ENG.), M.I.M.C., Dr C. S. Duns, B.SC.(ENG.), M.SC., PH.D., and Mr L. G. Kent Watson, A.C.A.

All members of the course were supplied with sets of brief notes designed to supplement the presentation, and all actively participated.

At the London CASS two-day specialist course. *Left to right:* L. G. Kent Watson, Marie Crompton, M. J. Lafferty, course chairman, and M. A. Yusuf.

Notes and Notices

PROFESSIONAL NOTICES

BLOOMER, HEAVEN & CO, Chartered Accountants, of Birmingham, announce that Mr GEORGE A. CLIFFORD, F.C.A., and Mr JOHN T. CHAMBERLAIN, F.C.A., have retired from the partnership and have become consultants to the firm. They will continue to be closely associated with the practice, which will be carried on by the remaining partners.

COWARD, BUTTON & CO, Chartered Accountants, of London, announce with deep regret that Mr A. J. R. COWARD, F.C.A., who had been a partner in the firm since 1929, died on May 17th, 1971.

DAVIS, BURTON, MOON & CO, Chartered Accountants, in association with LORD, FOSTER & CO, announce that with effect from April 1st, 1971, they have admitted into partnership Mr R. B. LUGG, A.C.A., who will be practising full-time from Croydon.

FULLER JENKS BEECROFT & CO, Chartered Accountants, announce the retirement from their London partnership on April 30th, 1971, of Mr JOHN BERTRAM RANSOME, F.C.A., and Mr BENJAMIN JOHN KETCHLEE, M.B.E., F.C.A. Both will continue to serve the firm as consultants and will be available to deal with the affairs of their clients. Mr FRED WHITE, F.C.A., retired from the Manchester partnership on April 30th, 1971, to take up a commercial appointment.

WILSON, HENNESSEY & CRAWFORD and ROBERT WALSH & SONS, Chartered Accountants, of Northern Bank House, 10 High Street, Belfast, announce that Mr ALAN J. GIBSON, B.SC.(ECON.), A.C.A., was admitted into partnership on May 1st, 1971.

APPOINTMENTS

Sir James Baird, Bt., M.C., B.A., F.C.A., who joined Bond Worth Holdings in 1965, has been appointed financial director of the company.

Mr Richard B. De Zouche, F.C.A., a partner in Wilson, De Zouche & Mackenzie, of Liverpool, has been appointed to the board of the Liverpool Building Society.

Mr R. H. Baguley, F.C.A., has been appointed financial controller of The Clay Cross Company.

Mr R. H. Baguley.

Mr R. J. Wylie.

Mr Ronald J. Wylie, C.A., J.DIP.M.A., A.M.B.I.M., has been appointed a director of Tullis Russell & Co. He retains his position as company secretary.

Mr Stanley J. Careless, F.C.A., F.C.W.A., J.DIP.M.A., has become group financial director and secretary of C. & W. Walker Holdings. He has also been appointed to the boards of the group's subsidiaries, C. & W. Walker; S. Cutler & Sons; F. Atkinson (Nottingham); Varicol, and G. Johnson Bros.

Mr Kenneth Cork, F.C.A., F.C.I.M., has joined the board of First Finsbury Trust. Mr Cork is joint liquidator of The Vehicle & General Insurance Co, which owns about 18 per cent of First Finsbury Trust.

DOUBLE TAXATION

Virgin Islands

A team of United Kingdom officials has been having talks in Tortola with representatives of the British Virgin Islands Government led by the Chief Minister about possible amendments to the agreement between the two countries for the prevention of double taxation of income.

A full and frank exchange of views took place and reports on the discussions are being made to the respective Governments. Further negotiations may take place at a later date.

UNSOLICITED GOODS AND SERVICES

The Unsolicited Goods and Services Bill, mentioned in a Current Affairs note on April 8th, has now passed through all its Parliamentary stages, and received the Royal Assent on May 12th. The new Act takes effect three months after that date, i.e., August 12th.

IN PARLIAMENT

Husbands' and Wives' Unearned Income

Mr DAVID JAMES asked the Chancellor of the Exchequer what is his estimate of the cost to the Exchequer of treating husbands' and wives' unearned income separately for surtax purposes.

Mr PATRICK JENKIN: The information is not available in such a form as to enable a reliable estimate to be made but the cost would be substantial, possibly of the order of £100 million.

Hansard, May 18th, 1971. Oral answers, col. 1060.

Value-added Tax

Mr DIXON asked the Chancellor of the Exchequer what proposals he is considering for the introduction of value-added tax on house purchase.

Mr MAURICE MACMILLAN: As the Green Paper on value-added tax indicates, there will be special arrangements for housing; but the exact

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form of these special arrangements has still to be decided.

Mr DIXON: Can the Minister confirm that owner-occupiers will not have to pay tax even when they sell their houses?

Mr MACMILLAN: As my hon. Friend knows, there is relief for such people on capital gains tax and there is a strong case for relief from value-added tax, but the details have to be worked out after consideration of the relevant factors, including the Green Paper and the views of the many interests involved.

Hansard, May 18th, 1971. Oral answers, col. 1059.

LIVERPOOL SOCIETY OF CHARTERED ACCOUNTANTS

At a meeting of the committee of the Liverpool Society of Chartered Accountants held on May 19th, Mr Arthur Green, F.C.A., a partner in

Thornton Baker & Co, was elected President for 1971–72.

Born in Liverpool in 1928, Mr Green was educated at Liverpool Collegiate School and in 1944 commenced his articles with Bryce Hamner & Co (now Thornton Baker & Co). His articles were interrupted by service in the Royal Air Force, but following his return to the firm he became a member of the Institute in 1950 and a partner in 1954.

Mr Green is a Past-President of the Liverpool Chartered Accountant Students' Association and of the Liverpool (now Merseyside) Junior Chamber of Commerce. He was elected to the Committee of the District Society in 1965 and served as Honorary Secretary for the years 1968 and 1969. Now a member of the Institute's Taxation Sub-committee, he has also lectured to Institute taxation courses.

Mr Green, who is married with two children, lists his hobbies as tennis, badminton and watching soccer. He is also treasurer of his local Church and a governor of the Northern Baptist College.

Other officers elected were:

Vice-President: Mr G. English, F.C.A.
Honorary Treasurer: Mr K. A. Allan, F.C.A.
Honorary Secretary: Mr J. A. Colvin, F.C.A., 5 Fenwick Street, Liverpool L2 0NZ.

INSTITUTE OF CREDIT MANAGEMENT

Mr Kenneth R. Cork, F.C.A., F.C.I.M., senior partner in W. H. Cork, Gully & Co, Chartered Accountants, was re-elected President of the Institute of Credit Management at their annual meeting in London on Wednesday of last week. Other officers elected for 1971–72 included:

Vice-Presidents: Mr T. A. Grundy, F.C.A., F.C.I.M., partner in W. H. Cork, Gully & Co, and Mr McNeil Greig, O.B.E., M.C., secretary, the Hire Purchase Trade Association.

Chairman of Council: Mr O. G. Mayo, director, Board of Management, Mercantile Credit Co Ltd.

In proposing the adoption of the report and accounts for 1970–71, Mr Cork referred to the financial success of the annual and autumn conferences due to the excellent support that members had given.

Although the theme and speakers have not yet been arranged, the Institute's next autumn conference will be on October 18th at the Royal Garden Hotel, London.

SOUTH WEST LONDON DISCUSSION GROUP

Mr Godfrey B. Judd, M.A., F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales, gave a witty address to the members of the South West London Discussion Group of Chartered Accountants at the Griffin Hotel, Kingston-upon-Thames, when he was principal guest at the Group's

LONDON ACCOUNTANTS' FOOTBALL LEAGUE

Terry Marsh, *left*, captain of the Hazy Ideas team (Arthur Young McClelland Moores & Co) receiving the London Accountants' Football League Shield from Mr Gordon Howe, F.C.A., President-elect of the League. The new League champions were presented with their trophy at a dinner held at Chartered Accountants' Hall on Monday of last week.

The B.S. Casuals team (Baker, Sutton & Co) who won the London Accountants' Football League Cup Final, pictured with the Cup at Chartered Accountants' Hall. *Left to right:* C. Davis, K. Sharp, G. Harding, M. C. Fry, B. Crack, B. Spencer (captain), R. Hawkins, A. D. Longworth, D. Truby, R. E. Todd and G. Fox, together with H. Stagg.

annual dinner marking the close of the 1970–71 session.

The following have been elected to serve as officers of the Group for the 1971–72 session which commences on October 4th:

Chairman: Mr A. J. Bryant, F.C.A.
Secretary: Mr D. P. Mittal, A.C.A.
Treasurer: Mr J. M. Pitman, F.C.A.

Members of the Institute living or working in the Kingston area are invited to join the Group, and the secretary would welcome inquiries at 25 Kingsdown Road, Cheam, Surrey. Telephone 01–644 6303.

CHARTERED SECRETARIES OBJECT TO PENSIONS LIMIT

The Chartered Institute of Secretaries has recommended in a letter to the Treasury that the upper limit on the amount payable under occupational pension schemes should be entirely removed as it considers that taxation in itself would be an adequate restriction making any limitation to amounts payable quite unnecessary.

Although congratulating the Inland Revenue on its booklet *Occupational pension schemes: notes on approval under the Finance Act 1970*, the Institute expresses the view that the compression of so much information into 68 pages 'provides a serious commentary on the complications of the system'.

FACULTY OF AUDITORS

The seven hundred members of the Faculty of Auditors have been asked to approve an extension of its title to 'The Faculty of Accountants and Auditors'. If approval is obtained, fellows would then use the designatory initials FFAA and associates AFAA.

In making this proposal, the Council of the Faculty has been influenced by the fact that members' professional duties are not exclusively confined to the practice of auditing, and also by 'the comments, albeit lighthearted, that the current qualifying letters "FA" invoke'.

SOUTH WALES CHARTERED ACCOUNTANTS' PRESIDENT

Mr Winston C. Davies, F.C.A., a partner in Harvey Preen & Co, Chartered Accountants, of Cardiff,

has been elected President of the South Wales and Monmouthshire Society of Chartered Accountants.

Born at Barry and educated at Barry Grammar School, Mr Davies served articles with Percy Walker, Simpson & Co from 1951 to 1956 and was admitted a member of the former Society of Incorporated Accountants in 1957. He became a partner in Richard Davies & Co, Chartered Accountants, in 1959, and through the amalgamation of practices became a partner in Harvey Preen & Co in 1967.

Elected to the Committee of the Society in 1965, Mr Davies served as Vice-President in 1970. Outside his professional life he is an active member of the Cardiff Rotary Club and sidesman of All Saints Church, Barry.

Other officers of the Society elected for 1971–72 are:

Vice-President: Mr K. B. Jefferies, F.C.A., F.T.I.I.
Treasurer: Mr D. H. Andrews, B.A., A.C.A.
Secretary: Mr H. N. Jones, B.A., F.C.A., 63 Park Place, Cardiff CF1 3LQ.

INTERNAL AUDITORS' SUMMER SCHOOL

As announced in *The Accountant* of May 6th, the fifth residential summer school of The Institute of Internal Auditors will take place at Clare Hall, Leicester University, from July 8th–10th. Anyone with an interest in

Mr Stanley Woods, F.C.W.A., F.A.C.C.A., F.C.I.S., President of The Institute of Cost and Works Accountants, and Mrs Woods, *left*, with Mr John Tilney, M.P. for Wavertree (Liverpool), and Mrs Tilney at the recent Golden Jubilee Banquet and Ball of the Liverpool and District Branch of the ICWA held at the Adelphi Hotel, Liverpool.

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THE RAPID RESULTS COLLEGE

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internal auditing will be welcome in addition to members of the Institute, their assistants and their colleagues.

Considerable time is being given to a survey of modern computer auditing practice and so that the school will be of practical use, a specific problem is being posed to those attending for their recommendation of appropriate requirements necessary for an efficient audit. These will be batch processed on a nearby computer installation where the Institute is 'buying time'. It is noteworthy that the software for the processing is the 'Strata' package designed by Touche Ross & Co, Chartered Accountants, and mentioned in our 'Computer Commentary' of April 8th.

Papers and presentations during the school will include 'Modern computer auditing' by Mr M. J. Gadsden, A.C.A., national manager of computer auditing, Touche Ross & Co; 'Security problems' by Mr E. C. Oliver, security adviser, Unilever Ltd, and 'Operational auditing in an industrial environment' by Mr F. J. Rigg, F.C.A., internal audit manager, British Steel Corporation, and President of the London Chapter. There will also be an open forum for the discussion of topics of practical interest to internal auditors generally.

Those wishing to attend should apply as soon as possible to Mr C. Duly, M.B.E., A.A.C.C.A., Standard Telephones & Cables Ltd, New Barnet House, Station Road, New Barnet, Herts.

ECONOMIC SURVEYS

A further booklet in the series of annual economic surveys of developments and prospects in member countries of the Organization for Economic Co-operation and Development has recently been issued covering France. Copies of the booklet are obtainable from HMSO, price 27½p.

'Tax-Free'

Compiled by KENNETH TRICKETT, F.C.A.

CLUES ACROSS

1. Wound up a particular account, returning about a pound (10).
5. Swear-words written by a fellow with a crane, if turned inward (9).
9. Commission arising from rent furore (9).
10. Fined; $\frac{3}{10}$ multiplied by $\frac{1}{2}$ deducted (7).
12. Sensible, expressible without radical signs (8).
13. Unusual transfer meant husbandmen paying rent (6, 7).
14. Arrived with characteristic realty (6, 8).
17. Excessive allowance recounted void, perhaps (13).
20. Personal representative, a good organizer? (13).
22. Remove a duty (6).
23. Mentions amendment of section (7).
24. From one society, holding back unprofessional holders of public appointments (9).
25. Summary of points in dispute specified by odd character (6, 4).
26. He might get to a second bar attempting to escape a legal process. (9)

CLUES DOWN

1. Balance was current involving one book-keeper (9).
2. Share changed into market price (9).
3. Inserted words between 'row' and '500' (10).
4. Ring for an appointment to be entered here, perhaps (10, 5).
6. Modest speculation causing confusion (7).
7. Reduction of red cement mixture (9).
8. Trade in cash with railway (8).
11. One's exact profits adjusted for the surveyor (9, 2, 5).
15. Having eighteen leaves to the sheet, with three months separated by 0 and 1 (10).
16. Declared in writing corrected by an exchange of letters (9).
17. First, fifth and twentieth, for example, causing a noise in the examinations (8).
18. Fine gold for judge's adviser (8).
19. Nominally often the last word, with restrictions (7).
21. Tax collectors raise it with the Royal Society (7).

The solution will be published next week.

Examination Results Supplement

March 1971 Intermediate of the English Institute and Parts IV and V of the Scottish Institute's Spring Examinations.

The Institute of Chartered Accountants in England and Wales

Results of Intermediate Examination held in March 1971

Order of Merit and Prizes

The name shown in brackets is the name of the principal to whom the clerk has been articled.

First Place in Order of Merit and the Stephens Prize
Glen John Nicol (A. C. C. Oddie), Bristol

Second Place in Order of Merit and the Flight Lieutenant Dudley Hewitt D.F.C. Prize
Michael John Sinfield (P. H. C. Hamilton) London

Third Place in Order of Merit (equal) and the Deloitte-Plender Prizes for the Paper on Book-keeping and Accounts II and the General Paper
Jeffrey Alan Cloke (R. S. Ransom) London

Third Place in Order of Merit (equal)
Judith Ann Haines (R. W. Minns), Birmingham

Fifth Place in Order of Merit (equal) and the Deloitte-Plender Prize for the Paper on Auditing
Chun Ping Hui (P. H. Hodgkins), London

Fifth Place in Order of Merit (equal)
John Corbitt Barnsley (E. W. Hoult), Newcastle upon Tyne

Seventh Place in Order of Merit (equal)
Christopher Robin Ashe (R. Boulton), Lowestoft
Han Hing Low (C. Kanter), London

Ninth Place in Order of Merit (equal) the Frederick Whinney Prize and the Deloitte-Plender Prize for the Paper on Book-keeping and Accounts I
Valerie Jane Coope (A. H. Badman), Blackpool

Ninth Place in Order of Merit (equal)
Margaret Robertson Millar (G. McAllister), London

Eleventh Place in Order of Merit (equal)
Charles Julian Cazalet (F. J. G. Whinney), London
Stuart Geoffrey Pullen (P. Shapland), Taunton

A

Abdul-Kadir, A. (A. A. Davis), London
Abery, S. R. (J. M. Price), London
Abrahams, I. C. (W. K. Wells), London
Acland, S. N. D. (R. G. Roberts), Barnstaple
Adam, J. (P. W. Mertens), London
Adams, I. M. (Mrs) (J. W. Greenwood), Preston
Adamson, R. N. (R. W. Morgan), Birmingham
Adcock, S. J. (J. A. Adams), London
Adjadj, N. B. (L. F. Guillem), London
Ahmad, A. (L. S. G. Grigg), London
Ahmad, B. (F. H. Bennett), Birmingham
Ahmad, R. (A. Morgan), London
Ahmed, K. (A. Winter), London
Ahmed, P. (R. F. Penney), London
Ainscow, R. R. (E. P. D. Taylor), Liverpool
Akataruzzaman, M. (B. Stiles), London
Akinwale. A. S. (B. A. Jacobs), London
Alam, C. M. (P. G. Hounsfield), London
Alavi, M. T. S. (H. E. A. Rolt), London
Ali, B. (A. L. Sober), London
Allen, C. R. (J. G. Smith), Spalding
Alvi, A. M. (G. J. W. Bean), London
Alvi, Q. A. (S. N. Rosenthal), Oldham
Amies, J. S. (G. W. Harrison), Wolverhampton
Anderson, D. J. G. (G. T. Edgington), Birmingham
Andrew, N. A. S. (C. G. Johnston), London
Apted, R. G. (M. P. Haines), Gloucester
Ariffin, B. A. B. M. (R. M. Fox), London
Armitage, L. C. (R. J. D. Thompson), Luton
Armitage, M. (H. Goldblatt), London
Arnott, A. R. (T. Mabon), Carlisle
Arshad, M. (A. F. Jones), Worcester
Arunasalam, P. (J. L. Meyer), London
Ashcroft, J. R. (P. J. Cooney), Leicester
Ashe, C. R. (R. Boulton), Lowestoft
Ash-Edwards, C. J. P. (J. D. Tanner), Reading
Ashton, S. J. (R. W. Mercer), Sheffield
Aske, J. J. (D. Child), Halifax
Assumall, J. G. (R. O. Robinson), London
Atkins, M. (K. Ivison), Helston
Attwood, G. J. (J. P. B. Martin), Winchester
Austen, R. (N. E. Dunning), Stoke-on-Trent
Austin, J. (N. W. Murray), London
Avery-Gee, J. E. (S. Young), London
Aylward, J. H. T. (J. A. Halsall), Carmarthen

B

Bache, J. T. G. (S. H. C. Wade), Stafford
Badar, M. A. (M. P. Goodrich), London
Baigent, A. G. (M. D. Wilson), Halifax
Bailey, K. M. (J. C. Glencross), London

Baker, C. J. S. (J. D. Cucksey), London
Baker, G. F. (M. G. L. Bailey), London
Baker, G. G. (K. W. Johnson), London
Baker, S. A. (H. P. Gold), London
Bakonyvari, A. J. D. (N. G. Reeves), London
Balas, S. H. S. (C. M. Richer), Tunbridge Wells
Baldry, T. (B. C. Tarry), Wellingborough
Bale, G. S. (R. S. Pereira), London
Banner, R. (D. B. A. Hirst), Cardiff
Barchia, R. O. (S. Bass), London
Barker, I. R. (W. L. Hall), Newcastle upon Tyne
Barker, J. A. (W. J. Germing), London
Barnard, C. J. (G. G. Bissell), Birmingham
Barnden, R. J. (J. A. D. Holloway), London
Barnes, T. F. (J. S. Meyler), Brighton
Barnett, W. (J. H. D. Leeke), Pontypridd
Barnsley, J. C. (E. W. Hoult), Newcastle upon Tyne
Barraclough, P. E. (R. N. D. Langdon), London
Barraclough, R. (P. J. Schoon), Preston
Barrett, J. B. (A. C. Picot), Jersey
Barry, L. (R. M. E. Watkins), London
Bartrop, P. J. (R. K. Davies), London
Batheja, D. S. (D. M. Birns), London
Bavister, J. H. (E. C. Shaw), Leeds
Beal, G. N. (Miss) (K. A. Pollock), Rochester
Beavan, C. P. (D. C. Keeping), London
Bebb, A. O. E. (J. C. Davies), Wrexham
Becher, J. M. R. (D. Buckley-Sharpe), London
Beecham, J. M. (K. J. Waterfield), Peterborough
Beecham, M. (S. A. Middleton), Newcastle upon Tyne
Beecroft, R. D. (J. D. Lloyd), Huddersfield
Beenstock, R. R. (Miss) (P. D. Levinson), Manchester
Bell, R. G. (P. M. T. Jackson), Stockton-on-Tees
Bell, W. R. G. (B. A. Maynard), London
Benallick, D. J. (G. T. Williams), Scunthorpe
Bending, L. C. (H. S. Somers), Slough
Bennett, D. J. (H. E. Hann), London
Bennett, D. J. (A. C. Brooking), Basingstoke
Bennett, D. M. (I. C. Hobbs), London
Bennett, R. S. (S. J. Richards), Wolverhampton
Bennett, S. T. (L. Joseph), London
Benson, L. M. (E. L. Langton), London
Berg, R. V. N. (Sir Ronald Leach), London
Bertram, R. J. W. (A. Pinkney), London
Bharwani, M. G. M. D. (S. Sherwood), Croydon
Bhatia, R. (W. Hill), London
Bhimjee, A. A. (H. G. J. Foulger), London
Bidston, M. J. (S. Douglas), Liverpool
Bignold, R. C. (K. B. Stone), Yeovil
Bigwood, S. (J. L. Read), London
Bilimoria, J. S. (C. J. Reay), London
Bilimoria, Y. P. (J. J. Fine), London
Bill, J. L. (A. D. Baker), Birmingham
Billingham, R. (D. H. Jones), Warley
Bird, M. K. (R. H. Ashcroft), London
Bisson, D. W. (J. E. H. Hamilton), Jersey
Black, R. T. (J. G. Dawes), Peterborough
Blackman, D. A. (B. G. Blackborn), London
Blackman, R. S. (A. D. Blount), Leicester
Bland, K. (G. A. Chugg), Cardiff
Bloom, D. H. (M. Golend), London
Bodhanwalla, K. H. (P. C. MacNamara), London
Boghani, S. N. (G. M. Graff), London
Boleat, D. P. (R. E. R. Rumboll), Jersey
Bolton, D. C. (R. J. Rimington), London
Bolton, P. C. (N. M. Berg), Cardiff
Bone, K. W. (J. S. Cobb), London
Boothroyd, P. S. (P. G. Leach), Huddersfield
Borland, R. (R. H. Taylor), Bury St Edmunds
Bourne, S. M. (J. G. Kuelsheimer), London
Bowler, N. P. (D. E. Claypole-White), Bedford
Bowman, A. R. R. (J. H. Bermon), London
Bowman, S. L. (N. Jamieson), London
Boyd, G. F. J. (D. E. Hudson), London
Boyd, M. I. M. (V. F. Berry), London
Brace, H. J. C. (E. R. Nicholson), London
Bradburn, R. J. (A. W. G. Earle), London
Bradford, T. (E. D. Cox), Birmingham
Bradley, L. A. (Miss) (A. T. Pitt), Warley
Braid, S. P. (E. Swinburne), Sunderland
Bridgford, D. P. (J. Rampton), Reading
Bridgman, A. J. (R. J. Hester), Slough
Bristow, S. J. (A. Blythe), Derby
Brittain, P. J. (J. C. Copeland), Birmingham
Broughall, B. (E. G. Squires), Luton
Brown, A. C. (W. McD. Morison), London
Brown, D. C. (G. Clarke), Manchester
Brown, J. D. G. (J. S. Armstrong), Newcastle upon Tyne
Brown, P. J. (A. B. Lucas), London
Browne, P. G. (E. B. Palmer), London
Bruch, D. E. (J. G. Hindmarch), Grantham
Brunton, T. D. (A. Pinkney), London
Buckby, D. (C. Baddiley), Kettering
Buckley, P. L. (K. M. Thorogood), Salisbury
Buhariwalla, M. S. (G. N. Norton), London
Bullock, A. W. S. (D. G. Richards), London
Burge, S. M. (Miss) (J. D. Donovan), London
Burgess, M. J. S. (S. W. Percival), London
Burgess, S. (Miss) (J. E. Yates), New Mills
Burley, P. J. (P. J. McGuchan), Watford
Burns, A. C. (H. Woodruff), Sheffield
Burrells, T. (I. A. N. Irvine), London
Bushell, A. M. (S. A. Schiff), London
Butler, K. R. (K. W. Kempton), London
Butt, J. A. (A. W. Pate), Birmingham
Butt, N. B. (J. C. W. Cox), London
Byrne, C. J. (A. J. Smee), London
Byrne, J. R. (A. W. Frankson), Southall

C

Callan, M. P. (Miss) (A. M. Pierpoint), London
Cam, J. H. (J. R. Adcock), Birmingham
Camacho, J. P. (P. J. Stilling), London
Cameron-Clarke, R. (M. Glyn), London
Cannell, S. N. J. (P. M. Williams), London
Capper, D. (W. S. Green), Stoke-on-Trent
Carey, L. D. (W. W. Atkinson), Newcastle upon Tyne
Carr, J. K. (G. E. Barrett), Manchester
Carroll, B. D. (Mrs) (T. S. Mullarkey), Gillingham
Carter, B. D. (J. H. Skerry), London
Carter, W. J. (A. J. Penrose), Preston
Casey, S. I. (E. J. Wilson), London
Catmur, R. J. (Miss) (J. Harrison), Manchester
Cazalet, C. J. (F. J. G. Whinney), London
Chakraborti, S. (R. Nathan), London
Chan, K. (T. A. Lane). London
Chan, S. C. (J. D. Finnigan), London
Chandaria, R. R. (J. Sims), London
Chandler, A. J. (P. A. Bartlett), Leamington Spa
Chang, S. F. W. K. (D. W. Crane), London
Charlton, G. (H. W. P. Johnson), Darlington
Chasty, C. J. (J. A. Rosser), London
Chatrath, J. M. (M. W. Thompsett), London
Chave, P. T. (E. L. Scott), Waltham Cross
Cheang, C. N. (Miss) (W. R. McBrien), Hastings
Cheetham, P. J. (J. V. Smith), Wigan
Chellam, K. (F. E. Hargreaves), London
Chester, M. R. (J. S. Weyman), London
Childerley, J. S. (F. B. Massey), London
Chin, M. A. (H. K. Gordon), London
Chin, R. K.-C. (T. J. L. Milner), London
Chivers, G. J. (I. G. Miller), Cardiff
Chong, S. F. (P. J. Willoughby), London
Choo, R. K. P. (F. H. W. W. Shaw), London
Choudhury, A. S. (F. H. Parkinson), Coventry
Chow Yick Cheung, C. K. C. (J. D. Finnigan), London
Christie, J. P. (C. R. E. Bennett), London
Christmas, R. J. (C. P. David), London
Chua, T. H. (S. M. Gray), London
Chudhary, K. H. (A. G. Arnfield), Manchester
Churchill, M. J. (A. J. Curry), London
Churton, N. A. V. (K. H. Payne), Chester
Cini, J. A. (A. J. Albury), Ashford, Kent
Clark, B. M. (R. H. Diaper), London
Clarke, A. C. S. (M. C. Bird), London
Claxton, B. D. (N. B. Hayman), London
Clawley, J. L. (R. Fawcett), London
Clear, C. J. (R. F. Snowden), Leicester
Clements, C. M. (J. J. Preece), London
Clements, R. (B. R. Oury), Maidenhead
Cloke, J. A. (R. S. Ransom), London
Close-Brooks, C. B. (P. C. Macnamara), London
Clough, C. A. (J. G. Turner), Huddersfield
Coates, A. (J. M. F. San), Walsall
Cobbett, N. R. A. (P. E. Huber), London
Coggins, R. R. (L. W. Brown), Bristol
Cohen, G. (G. L. Bloom), London
Cole, B. J. L. (D. J. Heacock), Birmingham
Cole, M. J. (G. Franklin), Brighton
Coleman, A. T. R. (R. Fort), Birmingham
Coleman, C. J. (D. G. Parris), Nottingham
Coleman, R. H. (S. R. Pote), London
Coles, P. A. (C. W. Gillott), Nottingham
Collier, G. J. (D. B. Evans), Hove
Collins, R. (R. A. G. Brown), Southampton
Collister, A. J. (R. W. Cowin), Douglas, IoM
Comery, S. E. (Miss) (R. K. Seddon), Manchester
Compton, J. D. P. (R. G. Bell), Oxford
Conway, B. M. (J. H. Jayson), London
Conway, D. M. (P. Laddin), Manchester
Cook, A. (A. W. Brooker), West Bromwich
Cook, B. G. (A. J. Parlane), Hadleigh
Cook, J. G. D. (E. C. Meade), London
Cook, S. (J. J. Wrench), London
Cooke, D. J. (P. C. Cardno), Huddersfield
Coope, V. J. (Miss) (A. H. Badman), Blackpool
Coppock, J. P. (L. Goldwyn), London
Corin, A. H. (A. J. Hardcastle), London
Corkish, T. A. (J. G. Fargher), Douglas, IoM
Cornefert, P. A. (W. M. Hoffman), London
Corney, G. C. (D. S. Eaton), Hounslow
Cornforth, H. E. (F. Swainston, Newcastle upon Tyne)
Cossins, S. P. (A. C. Tooke), London
Cotton, C. P. (T. C. Mayho), Bradford
Coutts-Wood, I. R. (J. B. Bates), Nottingham
Cowland, J. E. (T. M. L. Marke), London
Cox, C. (A. J. Taffs), London
Cox, N. M. (P. J. Seward), Worcester
Craig, G. B. (I. R. Turner), Newcastle upon Tyne
Craig, M. (B. Collins), Newcastle upon Tyne
Creeger, D. P. R. (J. Radstone), London
Cribb, J. (J. P. C. Gothard), Liverpool
Cridland. J. H. J. (E. B. Bate). Bristol
Crisell, N. D. (W. T. Meigh), London
Croft, C. (Miss) (J. E Hayes), Leigh
Crohill, J. D. (E. C. Shaw), Leeds
Crosbie, J. N. (C. R. Pamment), Ipswich
Cross, A. S. (A. M. Milling), London
Cross, K. D. (H. D. Mitchell), Grimsby
Cross, L. W. (D. M. Smith), Spalding
Crouch, B. J. (P. P. Keens), Wolverton
Crouch, D. M. (I. A. Wallace), Brighton
Crowdy, C. A. (D. N. Williams), Birmingham
Crowther, P. L. (A. B. Crosland), Halifax
Cullinane, P. M. (D. G. Bendall), London
Cummings, M. (P. N. Guest), Liverpool
Cundy-Cooper, M. C. (I. H. Handley), Winchester
Cunliffe, T. J. (G. M. Hope), Liverpool
Curtis, N. W. (J. D. G. Bentley), Newbury

D

Dale, R. (N. P. Beswetherick), Bristol
Dalton, J. C. (D. D. Lear), London
Daniel, A. (D. B. Simpson), Huddersfield
Daniel, R. E. (K. W. Rimmer), Llanelli
Darbyshire, B. A. (W. H. Chesworth), Manchester
Darcey, R. (G. P. Marsden), Halifax
Datoo, S. N. (A. P. Wilkins), London
David, P. L. (G. S. Crookes), London
Davies, B. D. (C. W. Smith), Ipswich
Davies, D. T. H. (W. D. Bennett), Fishguard
Davies, J. W. (D. E. Hunt), Cardiff
Davies, P. (P. E. Rutter), Manchester
Davies, P. A. (J. M. Harries), Swansea
Davis, C. G. (E. E. Ray), London
Davis, R. G. (J. W. Lord), Gravesend
Davis, R. J. (W. R. Young), Canterbury
Davis, S. P. (Miss) (B. J. Styles), London
Davison, I. M. (T. Bell), Sunderland
Dawoodbhai, E. E. (J. E. Borrett), London
Dawson, P. A. (R. F. Holloway), Nottingham
Deacon, G. A. (D. R. Vincent), Liskeard
Deacon, I. (D. J. Pugh), Pontypridd
Dean, J. C. (B. C. Jenkins), London
Deasey, S. G. (A. H. Morris), Brighton
De Bacq Rose, M. (A. M. Pierpoint), London
de Brûle, D. J. (R. E. Reynolds), London
Deeley, M. J. (W. R. Doherty), Birmingham
Delivett, D. P. (W. H. Land), London
De Mello, R. F. (R. K. Seddon), Manchester
Dempsey, D. G. (P. I. Woods), London
Dennis, C. H. (E. A. Bland), Colchester
Denny, C. A. (R. Casey), London
Denny, J. (J. Ross), Manchester
Denton, R. (K. H. Risdale), Rushden
Devitt, A. B. (D. G. Roberts), London
Dhanji, A. S. (B. Sturt), London
Dicker, A. R. (G. J. Jinks), Plymouth
Diner, M. L. (M. K. Berger), London
Disbury, B. R. (A. G. Betts), Birmingham
Dixon, G. A. (E. Hawkin), Leeds

Dixon, H. B. (J. O. R. Darby), London
Dixon, R. E. (J. E. C. McGowan), Basingstoke
Dobree Bell, P. K. (J. D. G. Bentley), Newbury
Dodd, H. A. (Miss) (I. G. Watt), London
Donnelly, P. A. (P. V. Stevenson), Liverpool
Doshi, T. J. (S. Simons), London
Dowding, R. J. (W. R. Dawson), Penrith
Doyle, M. P. (J. S. L. Springbett), London
Dring, C. C. (M. Melbourne), London
Dudley, F. T. (P. L. R. Holmes), Dartford
Dunkerley, J. H. (F. A. Ravenscroft), Manchester
Dunn, H. J. (P. Sharp), London
Dunne, M. D. (D. F. Gay), London
Dunne, T. V. (E. Marquis), Middlesbrough
Dyckhoff, M. (R. P. Wilkinson), Manchester
Dyson, H. B. (L. B. Eagle), Leeds
Dyson, J. C. (P. E. Couse), Birmingham

E

Eason, R. J. (T. A. J. Bedford), Leeds
Eaton, P. W. (J. R. Dixon), Crawley
Ebrahimji, M. S. (L. Rickman), London
Edgar, D. M. (Miss) (P. R. Holgate), London
Edmondson, N. K. (D. A. Wild), Manchester
Edwards, C. (A. E. Mitchell), Chesterfield
Edwards, J. R. (Miss) (M. I. Tailby), Birmingham
Edwards, M. F. (G. F. Macaulay), London
Elamin, M. I. (P. M. Stafford), Manchester
El-Charif, R. C. (D. A. Clarke), London
Eliasson, I. M. B. (H. C. Green), London
Elliott, A. C. B. (J. C. Fowler), Birmingham
Elliott, S. D. (P. M. T. Jackson), Stockton-on-Tees
Ellis, M. B. (J. T. Bootyman), Grimsby
Ellis, R. P. (P. G. Stone), Lincoln
Elmont, P. W. (E. K. Keen), Weston-super-Mare
Emslie, B. R. (D. J. Barnes), Stratford-upon-Avon
Enright, F. H. (R. P. Ingram), London
Entwisle, T. K. (F. W. Boyce), Bradford
Er, B. C. (K. J. Z. Kemsley), Wembley
Erfani, M. (E. C. Shaw), Leeds
Esmail, M. A. A. (P. A. Stuttard), London
Esmail, R. A. A. (F. H. Taylor), London
Essa, M. A. (B. E. Cripps), Manchester
Euston, J. O. C. The Lord Viscount (J. P. Waddington), London
Evans, D. K. (C. Marshall), Shrewsbury
Evans, K. M. (Miss) (A. Green), Liverpool
Evans, R. M. W. (B. L. Monahan), Swindon
Everall, D. S. (D. T. Young), London
Ewens, C. N. (D. J. Beagent), London

F

Fairbank, D. M. (P. R. Haywood), Rotherham
Fallon, O. (K. Patterson), Newcastle upon Tyne
Farber, H. M. (D. W. Allen), Sheffield
Fedyk, A. M. (Miss) (H. D. Hepworth), Sheffield
Feeney, J. M. (E. A. Poncia), Birmingham
Fellows, M. W. (J. L. E. Daly), London
Fenton, T. M. (B. D. Clark), Bournemouth
Fergusson, I. F. (J. A. Smith), High Wycombe
Fernandes, E. B. F. (R. T. Parkinson), Cardiff
Fernie, I. R. (E. H. King), Birmingham
Field, M. H. H. (J. G. Beaumont), Leeds
Finch, C. J. (P. G. Hine), London
Firmin, B. H. (G. N. Wakelin), London
Fisher, G. N. (A. D. Wardle), London
Fisk, M. G. (E. C. Meade), London
Fitzpatrick, N. B. (G. D. Verity), Bradford
Flanagan, P. (G. C. Cooper), Birmingham
Fleming, D. I. J. (G. Barber), Birmingham
Fletcher, P. A. (O. H. Thompson), London
Fletcher, S. W. E. (B. M. Frazer), Liverpool
Floate, G. R. (K. E. Carr), Chelmsford
Foo, S. K. (J. P. Burke-Scott), London
Forbes, M. T. C. (M. B. Hancock), Bury St Edmunds
Ford, A. W. (B. H. Smart), Guildford
Foreman, B. A. (A. K. Williams), London
Foster, J. M. G. (G. Robinson), Matlock
Fox, H. (S. R. Russell), London
Fox, P. A. (G. R. Littlewood), Sheffield
Fox, W. J. P. (G. T. E. Chamberlain), Leicester
Foy, G. E. (B. R. Crack), London
Framji, K. K. (P. W. Barrows), London
Frankin, N. G. (J. R. Groom), Great Yarmouth
Franklin, S. (B. Talfourd-Cook), Reading
Fraser, A. I. (F. S. Hall), Sheffield
Fraser, P. K. (P. F. M. Shewell), London
Free, R. V. (J. A. Nicholson), London
French, B. H. J. (S. H. Hall), Hull
Friend, P. H. (M. J. Wheeler), London
Frost, L. A. (Miss) (N. H. Parkinson), Leicester
Frost, M. R. (D. J. Corney), Birmingham
Fry, C. B. (E. J. M. Cox), London
Frye, R. E. (M. A. Charlton), London
Fudge, N. J. S. (N. G. Bascombe), Bristol
Fuller, C. M. (Miss) (R. J. W. Phillips), Colchester
Furse-Roberts, D. M. (J. P. Waddington), London

G

Galea, F. S. (J. J. Preece), London
Gamble, A. B. (E. J. W. Bridges), London
Gammie, P. G. (G. P. Shepherd), London
Ganeshananathan, R. O. (J. H. Skerry), London
Gardner, P. M. (L. M. Gold), Southsea
Gear, C. (A. C. Brooking), Basingstoke
Geary, P. B. (H. W. Tuckey), Birmingham
Ghaffar, M. A. (M. Moss), London
Ghosh, A. K. (R. W. Leigh), London
Ghouri, K. P. (K. T. Wright), Hertford
Gibb, R. M. S. (B. W. Waters), London
Gill, A. (F. Swainston), Newcastle upon Tyne
Gillani, M. E. S. (M. M. Feiger), London
Gilson, T. R. (D. O. Johnston), High Wycombe
Gleeson, A. D. (R. A. Chermside), Bristol
Goddard, J. C. (B. J. Dore), Oxford
Goddard, K. J. (E. C. Meade), London
Godfrey, R. D. (J. L. Merchant), London
Godsall, P. J. (T. G. Gobat), Hereford
Godson, R. W. (A. W. W. Baldwin), London
Goh, G. K. C. (L. F. Guillem), London
Goh, K. L. (Miss) (A. M. M. Ross), London
Goh, S. K. (S. S. Shaw), London
Goldsborough, J. B. (J. Barrett), Leeds
Goman, A. L. (Miss) (F. J. Esnouf), London
Goodman, N. T. (J. R. Wise), Epsom
Gordon, A. D. (K. H. Johnson), Grantham
Gordon, R. M. (G. Cunningham), Southend-on-Sea
Gossling, L. R. (I. G. Booth), London
Gould, A. F. J. (J. A. P. Whinney), London
Govil, N. (M. J. Coleman), London
Gowlett, A. R. (L. C. Hopkins), Hemel Hempstead
Graeme, S. K. (Miss) (A. H. Leppard), London
Graham, D. L. (C. R. Williams), London
Grant, A. H. (H. L. Bloom), London
Gray, R. S. (J. P. Davey), Ipswich
Green, A. P. (N. Stansfield), Hebden Bridge
Green, B. C. (R. C. Bennett), Bristol
Green, J. R. (R. Saville), Stoke-on-Trent
Green, L. D. G. (D. B. Thomson), Rugby
Greenfield, J. F. (C. F. Bright), Dunstable
Greenhalgh, S. J. (Miss) (C. B. H. Gill), Manchester
Gregory, C. H. (G. W. D. Bennett), Birmingham
Grewcock, K. G. (J. P. Cunnington), Leicester
Gribbon, A. F. (R. Horne), Blackpool
Griffin, R. P. (D. O. Johnston), High Wycombe
Griffiths, C. T. (W. E. Lamaison), London
Griffiths, J. G. (C. Baddiley), Kettering
Griffiths, J. H. (S. T. Gray), London
Griffiths, S. (H. L. L. Bunker), Bristol
Gugen, F. R. (H. Gould), London
Gumush, A. R. (D. H. North), London
Guthrie, A. D. (J. Rafferty), Cannock
Guy, J. J. (M. G. H. Spencer), West Bromwich

H

Haggart, N. R. (D. A. Thornley), London
Haggerty, J. J. (T. A. Parkhouse), London
Haider, S. I. (W. C. Atkins), London
Haines, J. A. (Miss) (R. W. Minns), Birmingham
Hakim, A. R. (A. A. Sheena), London
Hall, G. H. (D. Colby), Staines
Hall, J. J. B. (W. Hill), London
Hammond, F. (P. E. Rutter), Manchester
Hammond, R. L. (J. B. Benson), Stockton-on-Tees
Hamson, P. J. (E. Holehouse), Nottingham
Han, W. D. (S. J. D. Corsan), London
Harding, S. (Miss) (D. P. E. Cole), Cardiff
Harford, T. W. (M. A. Lynn), Birmingham
Harley, J. H. (H. M. Ireland), Cardiff
Harriman, R. (D. Croudson), Leeds
Harris, A. M. (G. McAllister), London
Harrison, J. P. (B. R. Dunn), Nottingham
Harrison, P. E. (P. W. Lane), Waltham Cross
Harrow, P. J. (P. S. Newman), Brighton
Hart, D. E. (J. G. Hurst, jun.), Liverpool
Hartshorn, M. J. (A. T. Percival), London
Hartshorne, D. W. (G. R. Stone), Birmingham
Hartwell, E. M. (Miss) (D. H. Senior), Evesham
Harvey, I. (F. G. Lyon), London
Hasan, M. (M. J. Ridge), London
Hassamal, V. (F. Jones), London
Hassuji, A. T. (I. G. de Mesquita), London
Hawes, R. C. (G. E. Thomas), Corringham
Hayward, G. H. G. (H. I. Ockelford), Nottingham
Hembery, S. J. (G. Hardy), Harlow
Hemmings, R. A. (P. J. Seward), Worcester
Henderson, A. (R. Grimble), London
Henebry, P. E. (C. W. McCormack), London
Heng, E. (Mrs) (G. E. Malyon), London
Herbert, J. (A. Greenwood), Burnley
Herman, J. M. (J. Sugarman), London
Hester, R. J. (P. J. C. Bagot), Manchester
Hewitt, D. G. (H. A. Binding), Poole
Hey, D. (Miss) (J. M. Richards), Bradford
Heyhurst, A. F. (J. D. Cross), Cambridge
Higgins, J. E. (D. B. Dawes), Manchester
Hill, D. A. (J. P. B. Martin), Winchester
Hilton, J. M. (C. A. S. Pain), London
Hilton, N. W. (W. A. Croft), London
Hindle, M. H. (Miss) (C. R. De La Wyche), Manchester
Hing, A. P. (A. M. Pierpoint), London
Hinge, P. L. G. (F. McD. Hall), London
Hipkin, S. A. (R. C. Fripp), London
Hipwell, R. D. (J. D. Leake), Birmingham
Hirji, H. R. (H. Newman), London
Ho, A. L. (Miss) (T. F. Ackland), London
Ho, R. G. S. (D. M. Melman), London
Hoad, P. A. (G. C. Tayler), Ashford, Kent
Hockley, P. M. (R. Lubell), London
Hodges, J. (J. C. Steare), London
Hodges, P. E. (J. C. Heath), Brentwood
Hodson, J. T. (D. S. Jenkins), London
Holden, G. A. (F. A. Ravenscroft), Manchester
Holiday, J. R. P. (J. T. Corbett), London
Holliday, S. R. (G. B. Young), London
Holloway, M. J. (J. A. Wood), London
Holloway, T. H. (C. B. Fytche), London
Holmes, D. N. (W. B. Douthwaite), Sheffield
Holroyd, P. (D. J. Williams), London
Holt, G. A. (A. S. Price), Leicester
Holt, M. J. (D. H. McGregor), Sutton Coldfield
Holyhead, A. F. (J. H. Capey), London
Hooper, N. A. (A. G. Braxton), Southend-on-Sea
Hopkins, R. C. (E. J. Frary), Luton
Hopkinson, M. J. (R. F. Sumner), London
Horley, C. M. (C. S. Mears), London
Horner, A. N. F. J. (A. M. Adnitt), Peterborough
Housden, R. C. (D. J. Taylor), Newport, Mon.
Howard, R. I. (D. Smith), London
Howell, D. P. (A. E. Cole), Bristol
Howgate, A. G. (S. H. Hudson), Leeds
Hoyle, C. D. (W. R. Jenkins), Cardiff
Hubbard, K. (J. C. W. Cox), London
Hubble, R. J. L. (K. L. Bennett), London
Hudani, S. G. (C. J. Peat), London
Hu Fouye, L. E. K. F. (P. W. Mertens), London
Huggett, J. W. (W. A. Honey), Eastbourne
Hui, C. P. (P. H. Hodgkins), London
Hull, M. D. (C. J. Lowe), Liverpool
Hunt, G. R. (A. Wilson), London
Hunt, S. A. (T. A. Hague), Eastleigh
Hunter, A. M. W. (A. W. Allen), London
Hunter-Gordon, N. (G. C. Drew), London
Huntley, R. B. (C. R. Williams), London

I

Ibrahim, Z. H. (D. Tudor-Williams), London
Iftikhar-Uddin, M. (W. Brown), London
Illingworth, M. D. H. (A. G. B. Burney), London
Ingram, J. C. B. (T. D. Carnwath), Manchester
Ingram, R. P. (P. T. Humphreys), Cardiff
Ipwanshek, S-C. (A. Beaton), London
Izzard, T. H. (B. J. Fisher), Hitchin

J

Jack, D. W. R. (F. G. Browning), London
Jackson, E. N. (M. A. Chamberlain), Leicester
Jackson, J. J. (G. W. Payne), Blackpool

Jackson, M. (C. S. Shaw), Birmingham
Jackson, R. (E. E. Maule), Ipswich
Jackson, R. C. W. (P. J. Noakes), Norwich
Jacobs, K. M. (M. R. Gold), London
Jaffer, S. A. (H. F. Dauncey), London
Jaffer, S. M. (A. Hall), London
Jagger, C. W. (W. J. A. Smith), Leeds
Jamal, L. R. S. (S. Lawson), London
James, B. R. (T. B. Campsie), Boston
Jamieson, I. (G. R. Walker), Hartlepool
Jarratt, I. H. (C. Hardeman Smith), Birmingham
Jeal, D. A. (T. J. Thomson), St Austell
Jefferson, A. M. (J. W. Burnell), London
Jefferson, C. P. (D. A. Palmer), Kingston upon Thames
Jeffery, H. E. (J. D. W. Marle), Bristol
Jeffreys, F. J. (E. G. D. James), Stroud
Jenner, M. J. (D. E. Abrams), Tonbridge
Jennings, A. H. G. (N. J. Heaton), London
Jennings, R. R. (J. J. Clayton), Bournemouth
Jessop, S. P. (J. Lillford), Doncaster
Jewkes, P. B. (I. O. MacLeod), Birmingham
Jivraj, A. J. K. (D. Pearlman), London
John, M. (J. D. Walker), Cardiff
Johns, G. A. (R. W. Brazier), London
Johnson, D. H. (R. A. Joynes), London
Johnson, G. C. (W. H. Eldridge), Chelmsford
Johnson, P. N. L. (V. C. M. Lister), London
Jones, B. P. (E. B. Greet), London
Jones, C. B. A. (D. G. Tate), St Albans
Jones, H. E. (The Hon. R. R. E. Chorley), London
Jones, H. H. (J. A. Kirkham), Liverpool
Jones, I. (D. B. A. Hirst), Cardiff
Jones, J. J. (T. E. Plews), Chester
Jones, M. J. S. (C. N. Smith), London
Jones, O. T. B. (E. G. Hughes), Wembley
Jones, S. (P. R. Haywood), Rotherham
Jones, W. M. (J. C. A. Gray), Cardiff
Joomun, M. A. (A. A. Davies), London
Jopling, E. J. (Miss) (L. D. Hayward), Liverpool
Joseph, A. T. (E. F. Tuffrey), London
Joseph, B. M. (I. D. Nelson), Sunderland
Joshi, A. L. (S. Cohen), London
Judges, P. I. (W. J. Germing), London
Jumabhai, S. B. (Miss) (F. G. Lyon), London
Jurenko, A. T. (M. Landsman), London

K

Kabir, M. E. (M. Sherman), London
Kalman, M. (R. Ward), Sheffield
Kamhawi, N. W. (F. B. Murray), Birmingham
Kaminski, P. E. (G. H. Barnard), London
Kandiah, P. (B. A. Kemp), London
Kanji, A. S. R. (H. E. Woolf), London
Kapila, S. (D. C. Morgan), London
Kapur, A. R. (H. Wadie), London
Kara, F. M. (J. C. Hunter), London
Karn, J. A. F. (R. J. C. Roffe), Godalming
Karsan, A. B. K. (T. J. L. Milner), London
Kassam, I. H. (T. M. L. Marke), London
Kavanagh, A. C. (W. B. I. Jamieson), London
Kaye, C. J. (I. C. W. Bond), Warwick
Kearney, M. J. (J. G. Hordle), Bristol
Keens, R. T. J. (J. C. Burges), Letchworth
Keisner, R. J. (I. B. Paul), London
Kemp, C. M. H. (E. D. Cox), Birmingham
Kemp, D. R. (J. A. D. Holloway), London
Kemp, P. (Miss) (D. L. Chaplin), Manchester
Keniston, D. G. (M. Holt), London
Kennedy, C. J. (J. C. Fields), Doncaster
Kennedy, P. B. (K. R. Woodford), London
Kent, R. G. (S. P. Wilkins), London
Kent, S. W. (C. Romer-Lee), London
Kenyon, M. A. O'B. (G. D. Whipp), Accrington
Kerr, A. T. (J. [illegible]earson), Bath
Keyse, P. J. (R. J. Bradshaw), London
Khan, F. Y. (M. H. Marsh), Stoke-on-Trent
Khan, M. I. (H. M. Newman), London
Khan, N. A. (H. Wayne), London
Khan, S. H. (M. W. Burns), London
Khan, S. Y. (A. G. Binder), Beaconsfield
Khaneka, B. S. (H. B. Vanstone), Manchester
Khaneka, P. S. (P. H. Tyack), London
Khari, M. S. (N. Freeman), London
Khosla, A. S. (P. J. Jeffries), London
Kiatgungwalgri, A. (W. G. Bradfield), London
Kilbee, J. R. (M. A. Coates), London
Kilbey, G. J. (J. B. Morphew), Hoddesdon
Killick, I. C. (M. D. Barrett), Eastbourne
King, J. R. C. (C. N. Smellie), London
Kingston, A. E. (C. B. Walcko), London
Kinnear, A. (J. H. Bird), London
Kipling, G. P. (E. G. Hammond), Darlington
Kirby, P. M. (Miss) (J. P. Dallison), Birmingham
Klein, A. P. (J. B. Klein), London
Kleinberg, M. D. (A. H. Massing), London
Kleiner, M. (D. B. Nurden), London
Kleinfeld, N. P. (S. A. Shalet), Southend-on-Sea
Knapp, A. J. (D. C. McAuley), London
Knight, A. T. (F. J. Thompson), Exeter
Ko, I. I-C. (Miss) (A. C. Smith), Bristol
Kon, M. L. (Miss) (S. J. Bressloff), London
Kunzmann, M. A. (E. C. Godfrey), Leicester
Kurz, S. L. (P. Sober), London

L

Lacey, I. J. (J. Lovell), Penzance
Laidlaw-Dickson, F. L. (Miss) (K. J. Johnson), Watford
Lakhani, G. L. (P. J. Madge), Southampton
Lalani, B. J. (S. Berman), London
Lambert, S. G. (J. B. Burkett), Bristol
Lane, T. L. (L. N. P. Jones), Hastings
Langinger, J. A. (S. L. Prashker), London
Langrish-Smith, K. (H. J. Wells), London
Langstaff, J. N. (A. W. McBride), Middlesbrough
Latham, A. R. (H. E. Hann), London
Latham, R. (J. Wills), Burnley
Lau, Y. K. (L. D. Morse), London
Lawrence, C. E. (J. O. R. Darby), London
Lawson, A. S. (J. F. Hendre), London
Leadbeater, D. (M. Marks), Leeds
Learmouth, M. W. (F. C. Parslow), London
Leatham, S. A. M. (H. Peat), London
Leathes, S. W. D. (F. J. G. Whinney), London
Lee, D. M. (R. N. Blake), Bristol
Lee, G. A. I. (S. Cowan), London
Lee, R. J. (R. A. Hughes), Oxford
Leeder, C. W. (D. Berry), King's Lynn
Lees, K. A. (W. A. Boyles), West Bromwich
Lee-Smith, B. G. (S. P. Wilkins), London
Legg, G. B. G. (G. H. Dudley), London
Leivers, R. J. (C. B. Brecknock), Nottingham
Leonard, A. P. (D. R. May), Tenterden
Lerner, L. (M. Barnett), London
Lew Ho Cheun, F. Y. (P. S. Donert), London
Lewis, B. J. (E. J. Furniss), London
Lewis, P. F. J. (J. M. Harries), Swansea
Lewis, R. P. (L. A. D. Giles), Crawley
Leybourne, S. (P. L. Wood), Leeds
Li, A. K. K. (C. N. Smith), London
Liang, M. G. M. L. (Miss) (R. J. Blincow), London
Lim, B. S. (K. A. Wilson), London
Lim, S. Y. (Miss) (C. J. Peat), London
Lindsay, P. J. (C. J. Bennett), London
Linstead, P. A. (D. J. Evans), Coventry
Linton, D. R. W. (R. L. Wade), Middlesbrough
Linton, M. H. (H. H. Seftel), London
Littlefair, D. J. (J. B. Benson), Stockton-on Tees
Littley, A. J. (R. C. Guttridge), Stourbridge
Li Yuen Fong, K. S. (A. T. How), London
Lloyd, J. J. (P. J. Willoughby), London
Lloyd, M. F. (A. E. Cole), Bristol
Lloyd, S. G. (P. J. Willoughby), London
Lloydbottom, M. G. (D. H. Lewis), Wolverhampton
Lock, S. J. (D. J. Powell), London
Lockton, M. R. (Miss) (D. G. W. Moss), Derby
Lockwood, W. J. (J. Blane), Blackpool
Logie, P. C. G. (R. G. R. Sisson), Great Yarmouth
Loh, Y. F. (M. Green), London
Lo Neng Fong, L. K. T. (E. Green), Croydon
Long, H. J. (T. B. Hargrave), Croydon
Long, N. J. (L. J. Bloch), London
Loopuit, S. J. (Miss) (R. N. Millar), Salisbury
Loughran, R. (E. Midgley), Manchester
Lovick, J. G. (R. B. Milne), Reading
Low, H. H. (C. Kanter), London
Low, S. L. (Miss) (S. Lawson), London
Lowe, D. (B. W. Law), Sheffield
Luckett, R. H. (Miss) (M. Roberts), High Wycombe
Ludbrook, D. R. (J. R. Chappell), Ilford
Lukes, J. C. (J. R. Griffiths), Colwyn Bay
Lund, J. M. (Miss) (S. W. Bayliss), Oxford
Luscombe, P. (Miss B. A. Kemp), London
Lynch, B. M. (P. Sober), London
Lyons, R. J. S. (G. E. Hedgman), London

M

McBride, J. S. (A. L. Weir), Birmingham
McBride, P. (R. G. O. Rew), Horsham
McCleverty, I. (J. A. Stott), Manchester
McDade, P. (K. G. Snowden), Preston
McDearmid, A. R. (E. D. Robinson), Scunthorpe
McDougall, J. P. (R. P. Wilkinson), Manchester
McElhinney, A. D. (T. Morgan), London
MacFarlane, N. B. (I. G. Watt), London
McGlone, M. A. (O. M. Lewin), London
McGranaghan, M. A. P. (P. C. Macnamara), London
McIlroy, K. (J. R. N. Travis), Manchester
McLean, N. C. (R. Long), London
McLeish, A. (N. A. Armstrong), Manchester
McLeod, G. K. (N. Isherwood), Blackburn
McManus, T. G. (R. Ham), Manchester
Macmillan, D. (N. J. James), London
Maddison, M. (H. W. P. Johnson), Darlington
Madge, B. C. (J. A. Randall), Kidderminster
Mahajan, S. K. (R. Jack), Liverpool
Mahmud, M. K. (A. D. Fincham), London
Mak, H. K. (A. J. Vinter), London
Malde, P. V. D. (B. H. Chandler), London
Malik, N. U. I. (J. D. Alton), Harrogate
Mallett, P. J. (S. C. Mallett), Birmingham
Mallik, P. C. (A. C. Goddard), London
Maloney, J. (D. H. Thomas), Abergavenny
Manley, R. J. (F. T. Heath), Ewell
Mann, A. D. (C. R. Pamment), Bury St Edmunds
Manners, R. F. H. (D. B. Kent), Norwich
Manning, R. J. (R. C. Gratton), Nottingham
Mantz, J. M. (J. D. D. Newton), London
Marker, Y. D. (S. Winograd), London
Markham, A. (N. H. Parkinson), Leicester
Marritt, G. (C. N. Bruce), Hull
Marsden, P. C. (R. W. Foster), Chesterfield
Marsden, S. C. (Miss) (W. Cavanagh), Blackburn
Marsh, C. H. (L. E. V. Masters), Worthing
Marsh, M. R. (A. J. Pilcher), Southampton
Marshall, N. C. G. (E. A. Williams-Ashman), London
Marshall, N. D. (D. H. Kirk), London
Marshall, O. V. (V. N. Pulman), Whitby
Marston, S. M. (Miss) (F. E. Price), Birmingham
Martin, A. D. (J. C. W. Cox), London
Martin, D. H. R. (E. C. Archer), Coventry
Martin, D. W. (E. G. Hughes), Wembley
Martin, R. A. (B. M. Nicholls), Birmingham
Mason, M. J. (B. Collison), Scarborough
Masri, S. N. (A. P. Downs), London
Mathew, V. (D. L. Combridge), London
Mawji, R. N. (G. F. Gilmore), London
Meagher, J. F. (J. D. Bee), Preston
Medley, H. W. (D. A. Boothman), Manchester
Mehta, A. (G. L. Hudson), London
Mehta, B. J. (J. I. Goldring), London
Mehta, B. B. (E. J. Fox), London
Meldrum, P. C. M. (J. G. Goodin), London
Merali, M. (L. G. Winfield), Sheffield
Merchant, A. N. (A. S. Sokel), London
Merredew, M. P. (W. Ledger), Kingston upon Thames
Messik, R. F. (T. Hoffman), London
Mian, A. A. (A. Jefferson), London
Middleton, D. E. T. (A. T. Spittle), London
Middleton, K. R. (P. J. Meadows), Stamford
Midgley, P. (P. Robinson), London
Mielsch, D. J. (G. J. R. Isbell), Norwich
Mifsud Bonnici, F. J. (J. F. Shearer), London
Millar, M. R. (Miss) (G. McAllister), London
Millington, R. J. (J. D. Donovan), London
Milne, A. H. (R. W. Maas), London
Minty, R. F. (M. B. Sarson), Oxford
Mistry, R. (J. Altman), Edgware
Mitchell, A. H. (F. J. Esnouf), London
Mitter, J. (T. J. Bayliss), London
Mohamed, Z. (D. J. Heacock), Birmingham
Mohan, H. K. (R. Long), London
Monnington, F. W. (B. O. Chilver), London
Moore, R. K. (R. A. Henley), Norwich
Morant, S. P. (J. R. Tovey), Reading
Morley, D. J. G. (R. A. Hill), London
Morrice, R. B. (W. E. Jacques), London
Morris, A. R. (C. A. Robinson), Uxbridge
Morris, B. G. (T. W. Mackrill), Hull
Morris, C. R. (J. B. Allardyce), Warrington
Morris, G. A. (P. F. D. Cornish), London
Morris, J. (K. V. R. Heaven), Birmingham
Morris, N. R. (E. T. Green), London

Morrison, D. P. (P. J. Butler), London
Moshir-Obahi, S. (G. F. Gilmore), London
Mountjoy, P. M. (C. Bishop), Gloucester
Munslow, A. E. (T. R. Pepper), Birmingham
Murgatroyd, M. G. (R. Hainsworth), Halifax
Murphy, C. A. (Mrs) (C. B. Huthwaite), Nottingham
Murphy, T. W. (N. M. Civval), London
Murray, I. J. S. (Sir Ronald Leach), London
Musaji, A. A. (A. Winter), London
Musuzu, A. N. M. (P. R. Cooper), London
Myears, L. C. (J. D. Askew), Cheltenham
Myers, D. G. H. (C. E. Corney), Birmingham

N

Nair, S. R. (J. L. Merchant), London
Nancarrow, N. C. (A. G. Parkhurst), Plymouth
Napper, G. (P. D. Fuller), London
Naqvi, S. A. S. I. M. (A. P. Wilson), Harrow
Naqvi, S. Z. H. H. (D. A. Bernstein), London
Naylor, D. A. (C. N. Smith), London
Neal, S. (C. Wallington), London
Needham, J. K. (R. J. Armstrong), Hitchin
Nelson, I. R. (W. E. Whitwell), Kendal
Newell, T. L. (K. H. Risdale), Rushden
Newill, R. (R. H. Field), Wolverhampton
Newman, J. A. (J. I. J. Shapiro), London
Newstone, R. E. (T. A. A. Kilner), London
Ng, J. P. (R. A. Howard), Birmingham
Ng, K. C. (D. T. Poulter), London
Nichol, G. J. (A. C. C. Oddie), Bristol
Nicholas, J. S. (J. A. Grenier), London
Nicholson, A. E. (H. A. Astbury), London
Nicholson, M. (S. W. Rainbow), Newcastle upon Tyne
Nicklin, D. R. (R. E. Patterson), London
Noble, M. J. W. (D. S. Morpeth), London
Noone, M. F. (Miss) (G. Barber), Birmingham
North, D. P. (F. E. Smith), Reading
Northing, D. J. G. (W. O. Ling), Derby
Nurse, A. W. R. (R. W. C. Dunn), Birmingham
Nyman, R. P. (J. L. Libson), London

O

Oakensen, D. A. (M. Green), Daventry
Oakley, A. R. (P. Adcroft), Blackpool
Oakley, S. E. (A. M. Pierpoint), London
O'Beirne, R. P. R. (W. Saxelby), London
Obiora, J. C. (W. W. Mortimer), London
O'Brien, T. (R. W. Lord), London
O'Connell, M. B. A. (M. H. J. Thorne), London
O'Connell, M. P. A. (D. B. Shaw), Sheffield
Ogden, R. J. (S. N. Gordon), Leicester
O'Grady, J. F. (D. H. Wordingham), London
Ogun, T. A. (A. R. Stacy), London
Olaiide, B. H. A. (S. Cohen), London
Olaubi, A. O. (S. A. Ash), London
Oldham, M. J. (G. F. Owen), Leeds
Ong, T. L. (S. A. Woolven), Liverpool
Ong, W. M. (Miss) (C. J. Jeffries), London
Oosman, A. N. (J. A. Allen), London
Openshaw, A. N. (G. Thompson), Leicester
Orchard-Lisle, S. C. (J. F. Buckle), London
Oseland, N. J. (G. H. Evans), Bilston
Osman, R. G. (T. Falkingham), Leeds
Ost, R. A. (B. C. Towers), Northampton
O'Sullivan, D. J. (P. M. Enright), London
Owen, D. W. (J. G. Hurst, jun.), Liverpool
Owen, G. R. A. (D. H. Salmon), Coventry
Owers, A. W. (G. C. Peat), London

P

Padidar A. (E. C. Shaw), Leeds
Paige, B. P. (R. L. Beckh), Tonbridge
Pain, R. W. (B. L. Wright), Leicester
Paine, M. F. (Miss) (G. H. Brown), London
Palmer, M. (Miss) (P. W. Smith), Haslemere
Panthakee, D. N. (F. E. Rowland), London
Parikh, B. A. (E. M. Beecham), London
Park, I. B. (J. E. Soughton), Harrow
Parker, M. S. (I. C. W. Bond), Warwick
Parkinson, K. (G. B. Mairs), Nottingham
Parkinson, R. (R. K. Ball), London
Parnell, D. (A. Wagstaff), Mansfield
Parry, R. S. (K. F. Paine), London
Parry, V. H. (P. M. Unsworth), Liverpool
Parsons, D. J. (G. M. Clarke), Wellingborough
Patel, A. G. (W. Stanton), London
Patel, A. I. (C. M. Anstead), London
Patel, D. (J. Sugarman), London
Patel, K. (S. Dias), London
Patel, R. C. (G. E. Simmonds), London
Patel, Y. K. (E. C. G. Godfrey), Leicester
Paterson, D. (B. G. Jenkins), London
Paterson, M. S. (G. McAllister), London
Payne, D. J. C. (P. T. G. Snuggs), Bournemouth
Peachey, C. W. (A. S. Kimpton), Newport, Mon.
Peacock, P. R. (R. W. Morgan), Birmingham
Pearce, A. J. (R. A. Oury), Slough
Pearce, C. F. (H. G. Hufford), Hemel Hempstead
Pearman, R. P. A. (R. B. G. Blackborn), London
Peddie, R. M. (F. A. Noble), Liverpool
Peek, M. I. (R. E. Midgley), Leeds
Peek, R. (N. Kirkman), Leeds
Peermohamed, M. S. (M. Goldstein), London
Pendlebury, J. D. (J. F. Waring), Bolton
Pennington, D. J. (J. Pennington), Liverpool
Percival, P. J. (A. S. Thorpe), Leicester
Perrin, A. E. (V. M. C. Lyttle), Birmingham
Perry, L. E. (E. E. Booker), Glastonbury
Perry, R. M. L. (K. A. Wilson), London
Petty, C. E. (J. A. Grenier), London
Petty, P. R. (P. B. MacHugh), London
Peyer, G. R. (D. F. Airey), London
Phear, J. R. (W. A. Hand), London
Phillips, L. A. (M. Kudlick), London
Pickford, D. J. (P. S. Newman), Brighton
Pickles, A. P. (R. H. Wood), Bradford
Pilkington, P. J. (R. D. Uttley), Bacup
Pinches, W. M. H. (J. A. Miller), London
Pinnington, H. C. (W. D. Corkish), Liverpool
Platt, J. A. (R. W. C. Dunn), Birmingham
Plumridge, C. A. (Mrs) (J. Seymour), London
Plunkett, I. J. (E. J. Simmonds), London
Pole, R. M. (M. Philpott), Gillingham
Pollard, T. (J. C. Burges), Letchworth
Polley, M. S. (J. A. Clemence), Beckenham
Pope, G. L. (T. Baker), Uckfield
Porter, A. K. (R. W. Swinbank), Stockton-on-Tees
Porter, J. E. (J. R. Riddell), Shrewsbury
Potts, G. (D. P. Crawford), Chester
Powditch, M. (D. C. Dietz), London
Powell, R. A. (Miss) (B. W. Lawley), Birmingham
Pratt, L. R. (Miss) (W. A. Croft), London
Pratt, M. A. (C. P. Faiers), Diss
Prickett, R. O. (J. A. D. Holloway), London
Puddifoot, R. J. (B. G. Durrant), Hillingdon
Pulford, J. D. (P. A. Spooner), Gainsborough
Pullen, S. G. (P. Shapland), Taunton
Pung, E. A. S. (Miss) (D. L. Armitt), London
Puri, S. (R. L. Harrison), London

Q

Quinlan, J. J. (D. F. Airey), London
Quinn, R. A. J. (W. F. Baulcombe), Solihull
Quraeshi, S. (R. St J. Buller), Bedford

R

Rafiq, M. (H. J. F. Radford), Southampton
Rahim, K. K. (B. Rose), London
Rahman, R. (R. M. Fox), London
Ramanathan, G. (D. J. Hay), London
Rampley, G. A. E. (G. L. Ratcliffe), Bournemouth
Rana, L. (L. A. Moss), London
Randall, G. J. (D. B. T. Lattey), London
Randall, P. M. (Miss) (A. H. B. Wood), London
Randle, M. G. (G. W. Percival), Birmingham
Rangeley, R. D. A. (F. G. Rollason), London
Rao, D. A. S. (M. Escow), London
Rashid, A. (R. F. G. George), London
Ratcliffe, J. N. (K. Davison), Cleckheaton
Ratcliffe, P. (M. Fitzpatrick), Leeds
Rawlinson, D. J. (R. C. Worbey), Stevenage
Ray, S. J. (R. Taylor), London
Ray, T. W. (W. S. Tate), Newcastle upon Tyne
Read, P. B. E. (B. G. Jenkins), London
Read, R. M. (D. H. Morris), Neath
Rea-Palmer, B. J. (R. J. P. Weaver), London
Redhead, S. (W. S. Eccles), Manchester
Reece, M. (K. Balmforth), Keighley
Reed, J. R. (T. McDonald), Leeds
Reed, S. W. (N. F. Luckett), Birmingham
Reeve-Tucker, C. S. (B. G. Blackborn), London
Reid, M. J. (R. L. Beckh), Tonbridge
Reilly, B. J. (J. P. Ord), Leicester
Reimer, S. P. T. (L. R. Elcombe), London
Renault, M. P. R. (K. J. Johnson), Watford
Reynolds, D. C. (J. Hall), Newcastle upon Tyne
Richardson, T. (J. F. Ellison), Hereford
Rider, I. M. (J. C. Lees), Birmingham
Rigby, J. L. (P. J. C. Bagot), Manchester
Rizawi, S. A. A. (L. S. Diamond), London
Rizwan Ullah, M. (R. D. Houseman), London
Roberts, J. C. W. (K. G. Winward), Hemel Hempstead
Robinson, B. (W. H. Chesworth), Manchester
Robinson, C. J. (J. M. King), Harrow
Robinson, D. J. (J. G. Sterry), Gloucester
Robinson, I. (J. Smurthwaite), London
Robinson, L. A. (J. W. Powell), Birmingham
Rock, P. M. (H. Hudson), Dudley
Rogers, A. J. (C. W. Smith), London
Rogers, D. J. (W. A. Hand), London
Rogers, J. A. (J. A. Hume), London
Roles, C. A. (Miss) (L. J. Newey), Romford
Rolfe, M. L. (J. W. Margetts), London
Ropner, R. C. (P. Fine), London
Rose, A. J. (C. B. Wulcko), London
Rose, P. R. (E. Midgley), Manchester
Rosenthal, G. A. (M. E. Bancroft), Liverpool
Rowe, C. M. (Mrs) (D. Baldwin), Manchester
Rowe, C. W. (H. Bach), London
Roworth, P. W. (K. E. Butler), Nottingham
Roy, C. G. (K. J. Sharp), Carlisle
Roy, R. M. (C. H. E. Tyson), Brighton
Rudd, R. W. (L. C. Hedge), Bognor Regis
Rudkin, M. L. (M. Wells), Leicester

S

Sackville, W. H. The Hon. (C. P. David), London
Sadr-Hashemi, B. (R. S. Nelson), London
Sakhuja, V. J. (M. Clifton), London
Salih, O. M. (B. Hepburn), London
Salter, C. E. (J. D. Finnigan), London
Salter, S. W. (P. H. Owen), Manchester
Samanta, S. (F. J. Fullerton), Leeds
Samter, D. J. (R. C. C. Rawlins), London
Saraf, R. (F. J. Hammond), Harrow
Saunders, G. C. (R. R. Gelling), Birmingham
Saunders, J. C. (J. J. Clayton), Bournemouth
Savage, M. D. (Mrs) (R. C. Worbey), Stevenage
Savill, S. S. (R. G. Chandler), Northampton
Saxon, J. S. (J. Watling), Macclesfield
Sayer, J. A. (Miss) (R. M. Gordon), Southampton
Scarlett, M. (M. J. Page-Wood), Eastbourne
Scorer, L. H. (J. E. Kennedy), Gateshead
Scott, M. W. (G. W. Robinson), Crook
Scott, S. M. G. (R. G. Field), Hull
Scott, T. A. A. (A. A. Cohen), London
Scudder, R. P. (G. H. Bennett), London
Seager, V. M. (A. G. Bateman), Birmingham
Seal, P. J. (J. W. Cox), Great Yarmouth
Sealy, B. N. (N. H. F. Howe), St Leonards-on-Sea
Sear, T. J. (R. W. Brazier), London
Searle, A. D. (I. D. B. Bond), London
Seccombe, G. D. (P. J. Mellows), London
Sellers, R. G. (A. H. Walton), Manchester
Sen, S. (W. Salt), London
Senior, A. (R. H. L. Humphries), Sheffield
Sentance, R. F. (H. W. Airey), London
Shah, J. F. (R. Sunderland), Bradford
Shah, M. P. S. (Miss) (H. J. Sorsky), London
Shah, N. M. (J. Denza), London
Shah, P. H. (Miss) (M. Gordon), London
Shah, V. (H. I. Stone), London
Shah, V. R. (G. W. Pickworth), London
Shaikh, M. B. (Miss) (S. Kon), London
Shallcross, R. (F. I. A. Ashworth), Manchester
Shariff, K. S. A. (J. J. S. Reynolds), London
Sharma, R. P. (M. Goldstein), London
Sharp, C. J. K. (J. A. Tuffin), Brighton
Sharp, J. R. (F. A. M. McDanell), London
Sharp, R. J. (E. H. Head), London
Shaw, D. I. (W. H. Jones), Swansea
Shawyer, D. M. (J. D. Hanson), Manchester
Shenkman, P. S. (L. H. Day), Jersey
Sheppard, D. G. (I. M. Stone), Newport, Mon
Sheppard, F. S. (J. C. W. Cox), London
Sheppard, I. F. (F. C. Johnson), London
Sherrard, E. P. G. (A. R. Johnson), London
Sherrey, A. E. S. (J. A. Greenacre), Birmingham
Sherrey, C. A. (M. B. Lloyd), Birmingham
Shiatis, C. P. (M. A. Shiatis), London
Shillinglaw, P. (J. M. E. Ravenscroft), Maidstone
Sidery, R. D. (P. L. Eynon), London

Sikazwe, G. A. (P. J. Hughes), London
Sim, E. H. (J. D. Berman), London
Simon, M. L. (I. Freedman), Manchester
Simons, G. R. M. (L. H. L. Lesser), Southend-on-Sea
Simpson, P. N. (W. A. Dodd), Manchester
Simpson, R. (C. S. Mears), London
Sims, M. P. (T. W. Haydon), London
Sinclair, D. M. C. (Miss) (F. Collins), London
Sin Fai Lam, A. (P. D. Lyon-Maris), London
Sinfield, M. J. (P. H. C. Hamilton), London
Singeisen, N. R. (R. D. Garner), London
Singer, A. R. E. (P. C. Forbes), London
Singh, J. (G. P. Waring), London
Singh, K. (I. A. D. Lyle), London
Singh, R. (R. J. Blackburn), London
Singla, S. K. (M. B. Silverman), London
Singleton, D. A. (M. G. Hart), London
Skinner, C. M. (J. A. Wild), Manchester
Sloma, G. E. (W. R. M. Millen), Enfield
Slowe, P. J. (R. B. Holden), Blackburn
Smethurst, J. (M. B. Sarson), Oxford
Smith, C. J. (P. Doxey), Blackburn
Smith, G. T. (H. D. Yeo), Worcester
Smith, J. (Mrs) (J. E. Grande), London
Smith, J. (Miss) (F. Holloway), Leeds
Smith, L. G. A. (J. Denza), London
Smith, M. L. (B. Sturt), London
Smith, N. M. N. (E. T. Green), London
Smith, R. J. (J. Vale), Derby
Smith, W. J. C. (D. M. D. Raper), London
Snelling, O. M. (Miss) (D. Colby), Staines
Snowball, R. H. (M. W. A. Jacobs), Ryde, IW
Solomon, R. B. (G. R. Porter), London
Solomons, J. E. (P. C. Susskind), London
Somani, A. R. (H. R. Falk), Manchester
Somani, B. R. (L. R. Wilkinson), Manchester
Sowden, R. A. (N. Stansfield), Hebden Bridge
Spackman, D. P. (D. E. Cox), Swindon
Spencer, N. C. C. (J. A. Heaford), London
Spencer, R. N. (H. Tonge), Oxford
Spencer, S. A. (J. G. Beaumont), Leeds
Spibey, S. P. (Miss) (W. T. Horsfall), Liverpool
Springer, N. F. (M. A. Braham), London
Spyrou, D. N. (J. M. Davis), Canterbury
Squibbs, T. (N. J. Nixon), Manchester
Srinivasan, D. (C. Collett), Newcastle upon Tyne
Stainton, M. T. (D. F. Biddle), London
Stanford, D. A. (J. K. Evemy), Taunton
Stanger-Leathes, C. J. (K. J. Hilton), Newcastle upon Tyne
Starkie, J. M. (E. R. D. Deakin), Manchester
Stebbings, D. J. (T. A. Tansley), London
Stelfox, E. R. (J. E. Hall), Manchester
Stephan, J. O. (N. W. Benson), London
Stevens, M. H. (F. M. Hall, London
Stevenson, M. J. (B. J. Northcott), London
Stillerman, B. I. (A. A. Davis), London
Stockford, P. J. (O. B. T. Bennett), Oxford
Stradling, J. E. (Miss) (D. H. Dunn), Exeter
Stradling, P. L. (Miss) (R. E. Murphy), London
Strickland, W. J. (H. C. Green), London
Stuart, A. G. (C. W. Blagg), Stafford
Stuart, W. S. (Miss) (J. P. Whitehead), Huddersfield
Stuart-Douglas, M. F. (P. J. Hawker), London
Stuart-Monteith, H. (Miss) (J. Gold), London
Stubbs, C. M. R. (W. H. Dawe), Chippenham
Stump, P. C. (H. R. Johnson), London
Sud, A. C. (M. A. Braham), London
Sultman, M. (R. L. Thursz), Blackpool
Sundt, R. C. (W. J. McCallum), London
Swallow, D. A. (G. Pickles), Halifax
Swan, A. E. (A. P. Locke), London
Swannell, R. W. A. (J. P. Grenside), London
Symonds, R. D. (J. J. Lowe), Liverpool
Symons, W. P. M. (D. O. Bailey), London

T

Taank, P. M. (M. Moss), London
Tacon, P. M. (N. F. Luckett), Birmingham
Tadvalkar, P. M. (J. W. Cowper), London
Taffs, R. M. (A. J. Langridge), London
Tafsirullah, N. M. (S. King), London
Tan, B. T. (J. D. Finnigan), London
Tan, G. H. (D. H. Harker), London
Tan, H. L. (R. L. Brooke), London
Tan, K. E. (T. S. Scott), London
Tan, W. S. (J. D. Liggatt), London
Tandon, A. K. (J. Docwra), London
Tank, A. J. (L. C. Curtis), London
Tann, P. R. (E. L. Scott), Waltham Cross
Taylor, B. G. (J. D. Cucksey), London
Taylor, D. B. (B. R. Cahill), Leeds
Taylor, I. (J. M. Farraday), Bury
Taylor, K. B. (J. H. Sibley), Bristol
Taylor, L. O. (F. C. Holloway), London
Taylor, M. (D. R. Briggs), Manchester
Taylor, N. (S. A. Shalet), Southend-on-Sea
Taylor, P. A. (J. M. Price), London
Taylor, R. C. (D. G. W. Moss), Derby
Taylor, S. J. (P. A. Thickbroom), Waltham Cross
Teague, C. J. (N. G. Thomas), Swansea
Teague, D. R. (M. P. Haines), Gloucester
Teh, C. M. (G. M. C. Crowder), London
Teh, P. S. (Miss) (C. Gee), London
Tellis, M. R. T. (D. P. L. Davies), Cardiff
Tennant, R. (J. H. Rock), Dudley
Teo, R. K. T. (W. Hill), London
Thai, Q.-V. (R. E. Patterson), London
Thakkar, V. G. (M. J. Birkett), London
Thakrar, B. R. (M. M. Feiger), London
Thapar, V. K. (A. Beckman), London
Thomas, A. C. N. (M. U. Guest), Canterbury
Thomas, A. E. (P. H. Plews), London
Thomas, C. H. (C. J. Jeffries), London
Thomas, D. M. (P. E. Braybrooke), Watford
Thomas, G. L. (R. Barlow), Chelmsford
Thomas, M. A. (J. H. Gill), London
Thomason, D. J. (K. H. Locke), Northampton
Thompson, J. H. (E. J. R. May), London
Thomson, G. I. C. (A. A. Mason), London
Thorn, N. A. (D. J. James), London
Tippetts, M. B. (T. W. Allen), London
Todd, A. D. (M. A. S. Kay), Leeds
Todd, R. E. (A. P. Humphries), London
Tofield, J. F. (J. M. Beard), Sheffield
Tolhurst, V. S. J. (W. G. Adams), London
Toller, M. G. C. (G. H. Whittome), London
Tomkins, N. D. (J. D. Cotterell), Birmingham
Trace, A. P. (B. F. Wheeler), London
Travers, J. (P. J. Burgess), Reading
Traves, M. T. (J. C. Glencross), London
Traviss, M. J. (J. Wakeham), Haslemere
Trigger, P. F. (J. S. Morris), Reading
Tse Young Sun, J. (D. D. Mathieson), London
Tucker, R. J. (J. F. S. Rogers), London
Tung Sing, C. M. Y. (E. K. Vaughan), London
Turnbull, G. (R. E. Midgley), Leeds
Turnbull, I. R. (B. Thomas), Berwick-upon-Tweed
Turnbull, J. M. (A. A. Davis), London
Turner, P. J. (J. F. Hunt), Peterborough
Turner, R. C. (R. E. Wagstaff), Stevenage
Twinn, D. C. (J. Calver-Jones), London
Tyler, T. P. (G. L. Aspell), Leicester
Tyrer, J. B. (W. Bakerman), Liverpool

V

Varmen, R. J. D. (R. R. Williams), Chester
Varsani, N. N. (M. Felton), Wembley
Vaswani, M. T. (R. W. Aitken), London
Vellani, M. S. A. (R. M. Morris), London
Ventham, M. J. (A. Tribe), London
Vickers, S. M. (Miss) (J. G. Hurst, jun.), Liverpool
Virmani, R. (D. S. Knights), London
Vohra, S. K. (P. S. James), Sidmouth
Vrahimis, A. (A. G. J. Horton-Stephens), Brighton

W

Wagstaff, P. F. (J. T. Kinsley), Windsor
Walford, P. A. (E. T. Worsley), Birmingham
Walker, A. A. (C. W. Massey), Birmingham
Walker, C. (R. J. Shafto), London
Walker, D. C. (W. Bradfield), London
Walker, G. R. L. (P. G. Corbett), London
Walker, S. (J. D. Hebden), Middlesbrough
Wallace, A. (T. Green), London
Waller, P. A. (W. S. Twaddle), Newcastle upon Tyne
Walsh, D. R. (J. A. Swingler), Birmingham
Walsh, S. (F. Crosland), Huddersfield
Walton, G. H. (F. R. Flowers), Leicester
Ward, L. W. (K. E. Butler), Nottingham
Ward, M. (W. Bentley), Leeds
Ward, T. V. D. (T. Bedford), Leeds
Wardell, N. J. (W. J. L. Tink), Birmingham
Warlow-Harry, C. (A. G. B. Burney), London
Warner, J. J. (M. J. Waugh), Cheltenham
Warwick, I. S. (J. R. Shires), Leeds
Watkin, P. J. (G. B. Bunker), London
Watson, E. (P. R. M. Harbottle), Newcastle upon Tyne
Watson, H. C. (F. A. Holyoak), Shrewsbury
Watterson, J. J. (W. F. Outhwaite), York
Watts, G. P. (B. E. Lucas), Stroud
Watts, J. R. (L. R. Trill), London
Watt-Smith, S. J. (K. H. Glossop), Sheffield
Wearmouth, G. (F. G. Hill), Hartlepool
Weatherseed, D. I. C. (G. W. Gumbrell), Hove
Webb, P. E. (J. C. Heath), Brentwood
Webb, R. M. (W. L. Danks), Worley
Webber, P. M. (F. G. Rollason), London
Webster, D. K. T. (C. F. Hughes), Walsall
Webster, J. P. (J. Brett), Norwich
Webster, N. B. (D. G. Holmes), Plymouth
Weir, D. G. (D. J. Martin), London
Weir, M. S. (R. B. Robinson), Leeds
Welch, S. W. (N. J. Millard), London
Wells, A. L. (G. C. S. Howkins), London
Wells, K. W. (G. C. Scannell), London
Wheeler, P. J. (J. A. P. Whinney), London
Whetstone, S. (V. M. Green), Leicester
White, A. P. (G. C. B. Gidley-Kitchin), London
White, M. J. W. (M. C. G. Drury), Wokingham
Whitlock, M. H. (P. E. Goldsmith), Hove
Whittaker, D. M. (W. E. Jacques), London
Whittington, P. F. (P. W. Chubb), London
Whyte, W. E. (W. R. Antrobus), Bury
Wiggin, A. C. D. (T. S. Wilson), Carmarthen
Wight, I. A. N. (R. Bexley), London
Wigley, M. J. O. (D. T. Young), London
Wildin, G. M. (J. G. Sterry), Cinderford
Wilkie, A. J. (P. Sharp), London
Wilkinson, A. K. (B. R. Cahill), Leeds
Williams, L. G. T. (D. G. Gill), Birmingham
Williams, P. H. (I. Partington), Leeds
Williams, P. J. (R. D. Barrett), Yeovil
Williams, R. E. L. (H. G. Ayres), London
Willis, W. J. (J. D. Jones), Bournemouth
Willmott, G. H. (J. Garton Ash), London
Wilsher, B. G. (P. Bradley), London
Wilson, D. A. (J. C. Benson), Newcastle upon Tyne
Wilson, J. H. (B. Cottingham), Sheffield
Wilson, M. V. (P. V. O'Donnell), Coventry
Winn, D. J. (G. Pringle), London
Wirgman, G. E. (J. R. Aslin), Southampton
Wismayer, D. L. (H. E. Williams), London
Witherington, J. S. (J. D. Castleman), Leicester
Wolf, P. G. D. (M. Thompsett), London
Wong, H. M. (S. J. D. Corsan), London
Wong, K. C. (L. H. Cohen), London
Wood, J. H. (Miss) (W. R. Ball), Nottingham
Wood, R. C. (A. J. Gravelius), London
Woodcock, D. N. P. (A. F. Kearns), Manchester
Woodhead, L. (Miss) (G. Hilton), Blackpool
Woodland, S. M. (Miss) (W. F. Curtis), Exeter
Woodnutt, R. M. (C. R. Tallon), London
Woodwark, N. G. (M. C. Ainley), London
Woolf, A. B. (H. W. E. Thompson), Manchester
Woolls, D. (P. G. Durrans), Basingstoke
Worthington, C. M. (D. L. Chaplin), Manchester
Wren, P. C. (T. H. Godsmark), London
Wright, C. T. (A. J. Knox), London
Wright, N. (F. J. Trevers), London
Wright, P. J. (G. J. S. Ellacott), Banbury

Y

Yeoh, L. H. (B. M. Moritz), London
Yeoh, T. H. (D. J. Mindel), London
Yeomans, A. H. (J. A. Fordyce), London
Yeow, K. K. (G. M. Graff), London
Yong, P. S. M. (D. K. H. Harris), London
Yong, Y. F. (K. Davies), London
Young, W. J. (A. Shanson), London
Younghusband, P. J. (H. Goldblatt), London
Yu Sak Kan, K. L. (T. G. Buckingham), London

Z

Zahedi, S. M. (D. R. Chilvers), London
Zortman, C. N. (R. Smith), Leeds

Candidates passed 1,302. Candidates failed 1,233.

The Institute of Chartered Accountants of Scotland

Spring Diet of Examination, 1971

PART V

Of the 411 candidates who sat Part V (whether transitional or otherwise) of the Institute's examination on April 5th, 6th, 7th and 8th, 1971, the undernoted 113 candidates (27·5 per cent) passed. Their names appear in alphabetical order and are followed by the names of the firms of the masters to whom they were indentured or assigned. Those who won prizes are referred to under 'Current Affairs' elsewhere in this issue.

Abbot, W. R. (Moody Stuart & Robertson, Dundee)
Adamson, L. A. (John M. Geoghegan & Co, Edinburgh)
Anderson, A. F. (A. G. Murray & Co, Edinburgh)
Anderson, C. C. W., B.COM. (Miller, McIntyre & Gellatly, Dundee)
Anderson, R. D. (McWilliam, Smith & Co, Inverness)
Armstrong, I. G. (Martin Currie & Scott, Edinburgh)
Auchincloss, J. W. (Wardhaugh & McVean, Glasgow)

Ball, R. G. (Thomson McLintock & Co, Glasgow)
Bannerman, G. M. (Robertson & Maxtone Graham, Edinburgh)
Barr, A. L. (Kidston, Jackson & Co, Glasgow)
Beedie, R. C., LL.B. (Moody Stuart & Robertson, Dundee)
Brown, A. P., M.A. (Peat, Marwick, Mitchell & Co, Glasgow)
Brown, W. J. K., LL.B. (Cooper Brothers & Co, Glasgow)
Burnett, G. B., LL.B. (Arthur Andersen & Co, Glasgow)

Cairns, A. B. (Kerr, MacLeod & Co, Glasgow)
Cameron, A. P. (A. C. Philp & Co, Dunfermline)
Cameron, E. W. (Arthur Young McClelland Moores & Co, Edinburgh)
Campbell, P. D., B.A. (Touche Ross & Co, Glasgow)
Carslaw, I. A. (Arthur Young McClelland Moores & Co, Glasgow)
Chalmers, R. W. (S. Easton Simmers & Co, Glasgow)
Clark, R. (Kidston, Jackson & Co, Glasgow)
Cook, K. G. (Hardie, Caldwell Ker & Hardie, Glasgow)
Coulton, S. M. (James Milne & Co, Aberdeen)
Coutts, A. M., M.A. (Kerr, MacLeod & Co, Glasgow)
Cowan, I. N., B.A. (Arthur Young McClelland Moores & Co, Glasgow)
Craik, W. R. (Moir, Wood & Co, Perth)
Crawford, R., LL.B. (Peat, Marwick, Mitchell & Co, Glasgow)
Crawford, S. A. (John M. Geoghegan & Co, Edinburgh)
Currie, J. (J. & R. Morison & Co, Perth)

Dewar, R. J., B.A. (Peat, Marwick, Mitchell & Co, Glasgow)
Dickson, R. N., LL.B. (Robertson & Maxtone Graham, Edinburgh)
Dow, G. M. (Charles Burrows & Co, Edinburgh)
Dow, H. J. (Graham, Smart & Annan, Edinburgh)
Drysdale, I. D. (Touche Ross & Co, Edinburgh)
Duncan, A. R. (Cooper Brothers & Co, Glasgow)
Duthie, J. B. (Thomson McLintock & Co, Glasgow)

Elder, R. J. (Thomson McLintock & Co, London)
Elliot, G. C. (Cram, Worsley, Robertson & Taylor, Dundee)
Everett, H. C., B.SC., (Graham, Smart & Annan, Edinburgh)

Ferguson, P. N. (Kerr, MacLeod & Co, Glasgow)
Fleming, P A. (Welsh, Walker, Ritchie & Co, Greenock)
Flynn, D. J. (Arthur Young McClelland Moores & Co, Dundee)

Gallan, W. D. (Alfred T. Scott & Co, Ayr)
Glozier, D. S. (Arthur Young McClelland Moores & Co, London)
Gowan, T. W., B.A. (Peat, Marwick, Mitchell & Co, Edinburgh)
Gray, H. (Meston & Co, Aberdeen)
Greig, A. D. (Scott-Moncrieff, Thomson & Shiells, Edinburgh)
Greig, P. G. (Thomas Barrie, Glasgow)
Guild, D. A. (Whinney Murray & Co, Edinburgh)

Hannah, D. T., M.A. (Arthur Young McClelland Moores & Co, Glasgow)
Hastie, J. G. (Kidston, Jackson & Co, Glasgow)
Hay, J. K. (Mackie & Clark, Glasgow)
Henderson, P. R. (Armitage & Norton, Edinburgh)
Hewett Chapman J. F. (Graham Smart & Annan, Edinburgh)
Horton, D. J. V. (Oswalds, Edinburgh)
Howie, W. H. (Dickson, McFarlane & Robinson, Glasgow)
Hyland, M. A. (Bower & Smith, Aberdeen)

Jaconelli, S. (Pannell, Fitzpatrick, & Co, Motherwell)
Johnston, A. J., B.A. (Arthur Andersen & Co, Glasgow)

Kent, I. J. (Kerr, MacLeod & Co, Glasgow)
Kernahan, J. (Mann Judd Gordon & Co, Glasgow)
Knox, A. D. (Nelson, Gilmour, Scott & Co, Glasgow)

Lall, V. (Thomson McLintock & Co, London)
Lamb, D. C. (G. K. Johnston & Smillie, Edinburgh)
Leckie, G. A., B.A. (Arthur Young McClelland Moores & Co, Glasgow)
Lister, A. A. (Mann Judd Gordon & Co, Glasgow)
Lockett, P. G. (Whinney Murray & Co, Glasgow)
Lumsden, T. (Wm. Home Cook & Coy, Edinburgh)

McBeath, D. B. (Barstow & Millar, Edinburgh)
McDonald, L. J. (William Duncan & Co, Ayr)
McDougall, J. W. (Mackay, Irons & Co, Dundee)
McEachran, D., B.A. (Watson & Galbraith, Glasgow)
McGibbon, A. J. (Turner, Hutton & Lawson, Glasgow)

McGill, C. S., LL.B. (Arthur Young McClelland Moores & Co, Glasgow)
McKeown, R. (Wylie & Bisset, Glasgow)
McKimmie, J. H. (Turner, Hutton & Lawson, Glasgow)
MacKinnon, A. (S. Easton Simmers & Co, Glasgow)
McPherson, I. J. (Chiene & Tait, Edinburgh)
Mawji, A. I. (Barstow & Millar, Edinburgh)
Miller, J. A. (Dickson, McFarlane & Robinson, Glasgow)
Mills, W. S. (Reid & Mair, Glasgow)
Morrison, D. H. (Scott, Peden & Co, Edinburgh)
Musgrave, I. A. S. (Barstow & Millar, Edinburgh)

Nicoll, N. (Bird, Simpson & Co, Dundee)
Nicolson, E. (McLachlan & Brown, Glasgow)

Page, B. G. (Miller, McIntyre & Gellatly, Perth)
Pottinger, G. R., LL.B. (Peat, Marwick, Mitchell & Co, Glasgow)

Rankin, N. G. T. (Pannell, Fitzpatrick & Co, Coatbridge)
Roberts, J. S. (James N. Roberts, Montrose)
Robinson, B. (Turner, Hutton & Lawson, Glasgow)
Rose, W. B. N. (Kerr, MacLeod & Co, Glasgow)
Ross, K. D. S., LL.B. (Mann Judd Gordon & Co, Glasgow)
Roxburgh, W. A., B.COM. (Thomson McLintock & Co, Glasgow)
Russell, K. W., B.SC. (Mann Judd Gordon & Co, Glasgow)
Russell, N., LL.B. (Moody Stuart & Robertson, Dundee)

Scobie, W. Y., LL.B. (Arthur Young McClelland Moores & Co, Glasgow)
Shedden, G. H. (Alexander Sloan & Co, Glasgow)
Smail, A.-M. McL. (Davidson Smith, Wighton & Crawford, Edinburgh)
Smith, B. D., B.A. (Thomson McLintock & Co, Glasgow)
Smith, J. (Miller, McIntyre & Gellatly, Dundee)
Steven, I. W. (Thomson McLintock & Co, Glasgow)

Templeton, J. G. (Reid & Mair, Glasgow)
Todd, D. C. G. (Thomson McLintock & Co, London)
Tweedie, D. P., B.COM. (Mann Judd Gordon & Co, Glasgow)

Unsworth, S. N. (Davidson Smith, Wighton & Crawford, Edinburgh)

Walker, G. E. (Kerr, MacLeod & Co, Glasgow)
Walker, G. R. (Thomson McLintock & Co, London)
Weir, W. L. (Hardie, Caldwell Ker & Hardie, Glasgow)
Whyte, W., B.COM. (Whinney Murray & Co, Edinburgh)
Wilken, C. H. (Whinney Murray & Co, Edinburgh)
Williamson, J. S., B.COM. (Graham, Smart & Annan, Edinburgh)
Wood, D. C. (Fleming & Wilson, Glasgow)
Wood, G. F. (Smith & Williamson, Glasgow)

PART IV

Of the 480 candidates who sat Part IV (whether transitional or otherwise) of the Institute's examination on April 5th, 6th, 7th and 8th, 1971, the undernoted 147 candidates (30·6 per cent) passed. Their names appear in alphabetical order and are followed by the names of the firms of the masters to whom they are indentured or assigned.

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Anderson, D. M. G. (Oswalds, Edinburgh)
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Darroch, I. (Wylie & Bisset, Glasgow)
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THE ACCOUNTANT

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THE ACCOUNTANT

Established 1874

Vol. 164. No. 5033

June 3rd, 1971

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No Longer a Dirty Word

WHILST we are still without any definitive and exhaustive catalogue of the attributes of a profession, it has been suggested with some force that one such attribute should be an organized and effective participation in research. By this standard, it must frankly be admitted that accountancy has, until recently, scarcely borne comparison with other learned disciplines. An honourable and to some extent successful exception to the attitude of *laissez-faire* which so long prevailed was the former Society of Incorporated Accountants, whose own research effort unfortunately foundered in the larger seas of the 1957 Integration Scheme.

It has often been claimed, not least by those who value a training in a practitioner's office above higher academic qualifications, that accountancy is a 'practical' profession; indeed, at last month's annual meeting of The Institute of Chartered Accountants in England and Wales, one speaker resurrected the old adage that 'those who can, do; and those who can't, teach'. There has in some quarters been a tendency to regard the academic as a parasitical appendage upon the profession, and to suggest that whilst he is busy in his ivory tower – or perhaps in his laboratory, refining the seed corn – it is left to the practitioner to bake the best bread that he can from this year's harvest and, more important, to sell it to the client.

It may well be that this preoccupation with the practicalities of the subject has from time to time shaded off into expediency, and the charge made by Professor Edward Stamp and others, that 'accounting principles' have been evolved largely on an empirical basis with scant consideration for any coherent underlying theory, cannot fairly be dismissed.

Professor Stamp has shown himself to be a more outspoken, and in many ways a more successful, critic of the accountancy profession than have been many of his fellow-academics; and whilst he has on occasion taken no undue pains to appear conciliatory, he is entitled to a material measure of the credit for convincing the profession of its need to re-examine some of its cherished precepts upon a more logical basis.

Replying to criticisms at the Institute's meeting, Sir Ronald Leach, C.B.E., F.C.A., Chairman of the Accounting Standards Steering Committee, said: 'I have believed for the last two years that the Institute has not done enough about research, and the reason it has not done enough about research is that it has not had the facilities, the people, the time, or the money to do it. I believe that a large amount of research

can be done in our universities, particularly now that we are beginning to have more chairs of accountancy in universities. I believe very strongly that there must be a connection between what I call the practising side of the profession, including those in industry, and the academic side of our profession who have more time to think but less contact with the hard facts of the world.' In other words, research is respectable.

It has already been announced that Professor Stamp is to take up, later this year, a chair of accounting theory at the University of Lancaster and that Sir Ronald Leach (in his personal capacity, rather than as a representative of the profession or of the Institute) has agreed to associate himself with this venture. Sir Ronald has also made clear his own view that the academic should always have at his elbow the views of the practising accountant, and that the new foundation at Lancaster will be a valuable added contribution to the profession's research effort.

Professor Stamp is moving to Lancaster University with our best wishes for the future, and in the hope that this will afford him added opportunities to provide what our contemporary, *The Investment Analyst*, described last year as 'more particularized critical work on current practices, and that departments such as his will generate more fully worked out constructive proposals for change of practice'. It is indeed time that the value of accounting research was more widely recognized and supported – financially as well as morally. There is, after all, no more certain means of repeating last year's mistakes than by copying without inquiry from last year's working papers.

Restraining Monopoly

DESPITE the concern expressed by many economists over the growth in monopoly power within British industry from the 1880s on, government intervention in this field is of relatively recent origin. The Acts of 1948, 1956 and 1965 sought to deal with a problem which was becoming increasingly evident due, in particular, to the consequences of technological change and other forces encouraging industrial mergers. Thus the degree of concentration in British industry, measured by reference to the proportion of total output controlled by one or two major companies, has been increasing continuously.

The success which has attended State efforts at monopoly regulation has been rather mixed; already, before the last administration left office, the apparent conflict in the activities of the now defunct Industrial Reconstruction Corporation and the Monopolies Commission had drawn adverse comment. The then Government had already promised a fundamental review of their policy which led to the proposal for a new Commission for Industry and Manpower.

The present Government is also anxious for change, although it does not find its predecessor's Commission particularly attractive. Nor does it regard a merger of the Monopolies Commission and the Restrictive Practices Court as the answer. The Government rather favours an enlargement of the present Monopolies Commission, re-naming it the Commission of Competition and providing it with more specific references. At the same time this Commission would become the main source of information for the Government on monopolistic practices and what economists term 'imperfect competition'. The result would, it is hoped, provide a more flexible and less legalistic set of procedures.

These proposals find some support from the Confederation of British Industry which has submitted to Mr John Davies, M.B.E., F.C.A., J.DIP.M.A., Secretary of State for Trade and Industry, its own suggestions for reform in this area. These have been outlined by Mr John Partridge, President of the CBI, in a statement in which he supports the creation of the proposed Commission of Competition. This, he says, would have as its main purpose the maintenance of a competitive environment and the swift elimination of abuses of market power contrary to that purpose, wherever these are found to exist.

The CBI proposals also visualize the appointment of a 'Director of Research and Investigation' responsible to the Commission, whose specific task would be to probe suspicions of unfair or monopolistic practices contrary to the interests of the consumer. He would also be responsible for recommending references to the Commission, but only if he were unable to work out a solution with the industry or firms concerned on a voluntary basis.

Coincidentally with the CBI statement there has appeared a new paper from the Industrial Policy Group entitled *The Control of Monopoly*, in which this group of leading industrialists and businessmen set out their views for the future, holding that the past efforts of the Monopolies Commission have often proved 'ineffectual and misguided'. The basic thesis of this well written statement is that now the Govern-

ment has defined its economic objective as the creation of a competitive economic climate, the requirements of any new policy are twofold.

First, general measures are required to provide a favourable environment for competition, such as freedom of international trade and exposure to competition for the nationalized industries. Once these conditions of market freedom are satisfied, less will be heard about monopolistic practices. The second part of the new policy should deal with specific matters, in particular the means of directing the attention of a reformed Monopolies Commission to matters relevant for the effective control of monopoly, rather than the 'wide-ranging and inconclusive surveys which have taken up so much of the Commission's time and have added greatly to the burden of the companies under investigation'.

But however good the intentions of the Government and industry may be, the proof of the pudding will lie in the eating.

CURRENT AFFAIRS

Institute's New President

MR ARTHUR HALSALL WALTON, F.C.A., who celebrates his fifty-fifth birthday next month, is President of The Institute of Chartered Accountants in England and Wales for the year 1971–72. At its meeting yesterday, the Council unanimously elected Mr Walton to the Chair in succession to Mr C. Croxton-Smith, M.A., LL.B., F.C.A.

The new President was educated at the Leys School, Cambridge, and was articled to Mr A. A. Talbot, a former partner in his present firm, the firm then being known as Lysons & Talbot. He was admitted to membership of the Institute in 1940, and subsequently served in the Lancashire Fusiliers, where he attained the rank of Major. He returned to the profession in 1948, and was admitted to the partnership now known as Lysons, Haworth & Sankey, of Manchester, in the following year.

Mr Walton was elected to the committee of the Manchester Society of Chartered Accountants in 1950, where he served for six years as its Honorary Treasurer; he was the Society's President in 1957. He was elected to the Council of the Institute in 1959, and has shown a particular interest in the subject of professional education. He is a past vice-chairman, and subsequently chairman, of the Education Committee; he has also served on the Examination Committee (five years), P. D. Leake Committee (five years) and Post-Qualifying Instruction Committee (three years), and he has represented the Institute on the Board for the Joint Diploma in Management Accounting Services.

For the past year, Mr Walton has been Deputy President of the Institute.

NEW DEPUTY PRESIDENT

Mr Douglas Spottiswoode Morpeth, T.D., B.COM., F.C.A., has been elected Deputy President of the

Institute for the ensuing year. Mr Morpeth has already served for the past year as Vice-President.

Born in 1924, Mr Morpeth was educated at George Watson's College and Edinburgh University. He served in the Royal Artillery from 1943 to 1947 (for part of the time in India, Burma and Malaya) and in 1949 he joined the Honourable Artillery Company, where for two years he commanded its First Field Regiment. He is now a member of the Company's Court of Assistants, and has also held the appointment of Master Gunner within the Tower of London.

He was admitted to membership of the Institute in 1952, and became a partner in his present firm of Touche Ross & Co in 1958. He was elected to the committee of the London and District Society of Chartered Accountants in 1960, and was one of the Society's nominees to the Technical Advisory Committee of the Institute until his election to the Institute Council in 1964.

He has served on a number of Institute committees, including the Parliamentary and Law Committee (three years as chairman), General Purposes and Finance and P. D. Leake Committees. He has also represented the Institute on the Accountants Joint Parliamentary Committee. His other appointments include membership of the Board of Trade advisory committee on investment grants in 1967, and of the Accountancy Advisory Committee of the Board of Trade in 1968.

Mr Morpeth is a recognized authority on several aspects of the United Kingdom tax system, and has presented papers to a number of conferences. He was chairman of last year's Institute summer course at Cambridge, on the theme of 'What is Profit?'.

Mr Douglas Spottiswoode Morpeth, *Deputy President.*

NEW VICE-PRESIDENT

The new Vice-President of the Institute, in succession to Mr Morpeth, is Mr Edmund Kenneth Wright, M.A., F.C.A., a member of the Council since 1959 and a partner in the firm of Annan Dexter & Co.

Mr Wright was educated at Leighton Park School and at St Catharine's College, Cambridge, where he graduated with Second Class Honours in English and Economics. He has spent the whole of his professional life with his present firm, having been articled in 1933 to the late Geoffrey Bostock. He was admitted to membership of the Institute in 1937, and became a partner in Annan Dexter & Co in 1940. He is also a partner in the Rhodesian and Zambian practices of Deloitte & Co.

Before his election to the Council, Mr Wright was for nine years a member of the Committee of the London and District Society of Chartered Accountants, and was its Chairman in 1957–58. From 1953 to 1959 he was a member of the Institute Taxation and Research Committee, including one year as chairman of its Taxation Sub-committee.

He has served on most of the principal committees of Council, including Professional Standards, of which he is currently vice-chairman, Courses (three years as chairman), Public Relations (four years as chairman), Applications, Articled Clerks, District Societies, General Purposes and Finance, and Parliamentary and Law. He has also been a Vice-President of the London Students' Society since 1958.

A well-known writer on professional subjects, Mr Wright has contributed three booklets to the Institute's 'Practice Administration' series; a review of the most recent of these, *Financial Planning for Individuals*, appeared in *The Accountant* of February 18th.

Mr Edmund Kenneth Wright, *Vice-President.*

New Distinction for Moorgate Place

CHARTERED Accountants' Hall is one of four building projects to which the Concrete Society has awarded its certificate of commendation for 1971.

The award judges described the building as 'an impressive addition to an existing building and to the development of the street. The building demonstrates the potential of concrete as a facing material of high quality. Internally, the use of concrete contrasting with fine joinery and marble is appropriate and exciting, particularly when related to the reinstated areas of the old building'.

In reporting the capping-out ceremony in its issue of August 9th, 1969, *The Accountant* referred to the unique design of Chartered Accountants Hall, in which the five upper storeys above the Great Hall are suspended from beams which transmit the loading to four major columns strategically placed outside the area of the Hall. Those whose business takes them to this part of the building will doubtless be comforted to learn from the Concrete Society's publication that these beams are of massive construction, 8 ft by 3 ft in section, and of pre-stressed concrete.

As previously reported, Chartered Accountants Hall was constructed to the designs of Mr William Whitfield by Holland & Hannan and Cubitts Ltd.

Accounting Practices in the EEC

SEVERAL of the papers presented at the Sixth Congress of European Financial Analysts last October concerned matters of particular interest to accountants, especially those relating to the growth in the publication of consolidated group accounts in the EEC and the differences in accounting practice to be found in member countries. In addition to these, the published proceedings of the congress (now available from The Society of Investment Analysts, price £1·50), contain an extended discussion on methods of industrial financing which examines not only the alternative methods available to companies for obtaining additional capital, but also their impact on earnings growth and the relative importance of the various sources of capital in the various countries.

The highly complex and detailed papers laid before the conference hardly lend themselves to brief comment or summary. However, the upshot of the discussion on mergers was that there is room for more co-operation between management and the analyst. By means of a standing commission on corporate information, a code of behaviour in respect of the information which should be issued when a merger is announced, could be established.

It was further agreed that the publication of consolidated accounts should be encouraged and that, for the present, this could be achieved more effectively, not by pressing for new legislation, but by enlisting the help of stock exchange authorities. In particular, international harmonization of accounting methods was badly needed in Europe and such a step would help in this direction.

On more detailed points of the discussion on consolidation, it was agreed that all subsidiaries of importance should be included; valuation methods should be as consistent as possible and as close to reality as was feasible, any divergences being fully explained in the notes to the accounts. For particularly important activities – especially where a group is highly diversified – separate figures were needed to reveal the full picture.

It would be surprising if the authorities ultimately responsible for evolving the EEC laws on company matters were to ignore such sentiments and expresson of informed opinion.

No More Corporate Accountants

AT their annual meeting in April, members of The Association of Certified and Corporate Accountants approved a Council resolution to drop the words 'and Corporate' from the Association's title. (*The Accountant*, April 29th). With the approval of the Registrar of Companies, this change has become effective, and the appropriate form is now 'The Association of Certified Accountants'.

Members of the Association are already described as 'certified accountants', but the 'corporate' legacy still survives in their designatory initials, which will be F.C.C.A. and A.C.C.A. for fellows and associates respectively. Apparently it was considered that the versions originally proposed, 'F.A.C.A.' and 'A.A.C.A.', could too readily be confused with other sets of initials already in use elsewhere.

DIY for PAYE

HAVING successfully coerced employers over the last thirty years into acting as unpaid tax-collectors, the Inland Revenue is now participating in an experiment which may lead to taxpayers calculating their own PAYE codings. Self-coding forms have been issued to a sample of 500 people chosen at random by the Government's social survey unit.

As a guide to accuracy, the 500 'guinea pigs' are also being asked to complete an ordinary return form. It is expected that to check the forms will take several weeks, and the future of the scheme depends on how accurately they are found to have been completed.

'Self-assessment' to tax is already practised to some extent in the United States ('Who Called it Simple Arithmetic?', *The Accountant*, June 18th, 1970) and collection costs are claimed to be proportionately

lower than in the United Kingdom. The Inland Revenue Staff Federation has, however, given the new proposals a lukewarm reception, pointing out that extra staff might have to be employed at first to check the coding forms, and that on any likely estimate there would be at least 2·5 million Schedule E taxpayers who could not cope with self-coding.

Management Game Hazards

CONTENDERS in the third round of the National Management Game, sponsored by The Institute of Chartered Accountants in England and Wales in association with the *Financial Times* and ICL, which is to be played on June 24th, will have to meet disastrous fires limiting their production capacity for the first half of the round. Appropriately enough, however, the surviving teams include the 'Helraisers' (Hunting Engineering), the 'Avengers' and the 'Sinners'.

Another contrasting feature which the game's administrator, Mr Kenneth Williams, F.C.A., intends to introduce at this point will be a 'cold' market for the notional product. The 16 companies who survive the third round will go forward to the semi-finals.

The Institute's business game for sixth-formers has now reached the semi-final stage, with nine survivors out of the original intake of 241. The final round, for the Institute's Silver Shield, will be played in London on July 9th. At the end of the third round, Warwick School led the field with an accumulated net profit of £2,015,340, Ellesmere College (£1,721,520) being a strong contender.

Air Fares Monopoly

CHARTER flights are now big business. The attractions of reduced fares, for example, a £60 to £70 saving, on the North Atlantic run, are such that the International Air Transport Association (IATA) is under increasing attack for restricting the availability of cheap flights.

The latest criticism comes in a new Hobart Paper from the Institute of Economic Affairs, *The Price of Air Travel* (40p), written by two economists at the University of Exeter, Mr M. H. Cooper and Mr A. K. Maynard. In their opinion 'the present structure has little or nothing to commend it, save that it gives governments and airline chiefs a quiet life'.

The cartel (IATA) has, 'besides enforcing uniform tariffs on all members, restricted competition in quality'. Furthermore, excess capacity pervades the industry and the consumer is expected to pay for empty seats he has not asked for.

According to the authors, 'only by allowing airlines to vary their product, mix freely and to reflect it in their fare structures can mass air travel become a reality'. The present system offers consumers no significant choice, and forces them to accept high prices and almost complete uniformity of product. The entry of new airlines to the market adds little or nothing to consumer choice but simply to total capacity, thus contributing to extra costs and the general lowering of the load-factor which dropped from 61 per cent in 1958 to 53 per cent in 1969.

If the tremendous potential for development, which the authors believe to exist is to be fully developed, reform is urgent. Unfortunately, as the authors note, 'national goverments eager for "prestige" lines and airlines eager for "prestige" planes have both come to expect the consumer to pay to keep both in the air'. Unless public opinion can be effectively mobilized, the much-to-be-desired reform is still a long way off.

CBI Review

A RECENT survey among members of the Confederation of British Industry revealed considerable support for a journal dealing in depth with current issues and their impact upon industry. In consequence the CBI is publishing a new *Review* (75p per issue or £3 per annum).

In the first issue, the Director-General, Dr Campbell-Adamson, finds little in the industrial scene to enthuse over. He sees little possibility of any early agreement on a prices and incomes policy 'which would not be harmful to industry', although he does detect an improvement in the general climate for industry. Future rates of economic growth depend, he avers, on reducing the rate of inflation. He finds the main hope for economic growth and prosperity in a return to a system where market forces can operate.

Mr L. F. Neal, chairman of the CBI Labour and Social Affairs Committee, is concerned with the development of 'power-bargaining' of the labour unions, but contends that it can quickly become self-defeating. In his opinion the Industrial Relations Act may well change the climate of industrial relations during the 1970s, and its greatest benefit should be to encourage management to develop better industrial relations systems on a voluntary basis.

With supporting statistical analysis, the vice-chairman of Tunnel Refineries, Mr L. S. Wigdor, contends that 'the profits declared in many balance sheets today are over-stated and misleading. The real profits of such companies are much lower and in some cases actually negative'. In his opinion the State is taxing profits 'which do not exist', and in consequence of this situation the economy is suffering from an inadequate rate of industrial investment.

Given the figures quoted, to the effect that between 1965 and 1970 the national output rose by 36 per cent, income from employment by over 43 per cent and gross company trading profits by less than 6 per cent, then clearly the conclusion that some companies have been living off capital is justified, allowing for the change in prices over that period.

Drawing a Long Bow

UNDER the title 'Unique pulling power', another publication claimed last week to have established itself 'as the most effective recruitment medium for qualified accountants' and that 'it now carries substantially more recruitment advertising per week than any other accountancy publication'. We do not know on what underlying arithmetic these remarkable claims are based, but they are, in plain terms, untrue.

For the record it has to be stated that the rightful holder of this distinction is *The Accountant*; the total number of classified advertisements published during the months of April and May was as follows:

	Situations vacant	*All other classifications*	*Total*
The Accountant	1,073	1,160	2,233
Nearest competitor	635	71	706

Classified advertisements in *The Accountant*, it will be remembered, are also repeated without further charge in *Taxation*.

It would appear that the claimant in this instance is less apt at pulling them in than at stretching it out!

THIS IS MY LIFE

Finding the Typical Accountant

by An Industrious Accountant

THE sales manager was arguing that we should install a computer. Punched-cards were obsolete, he declared; they might be all right for old-fogey accountants only wanting to look back at historical records, but they wouldn't do for the sophisticated executives of the 70s who wanted to know what their customers' purchases would be for next month rather than for last month.

I told him he'd been reading too many science fiction magazines. Any properly programmed hardware would analyse past records in detail, but he'd have to make his own forecasts – unless he could feed in the weather, the cost of living, and the next teenage fashion trend to follow hot-pants. The market place was unpredictable; its riches went to the luckiest gamblers. Besides, we wouldn't need sales managers if we had well-trained computers on the payroll to do their job.

Scotty recovered himself sufficiently to say I was talking like a typical accountant rather than an administrator, and a couple of his henchmen waxed vulgar with such adjectives as dessicated, jealous, unproductive, and moronic-minded. We parted with mutual hostility.

Nevertheless his jibes set me brooding. What is the answer to the old wisecrack about the 'typical accountant'? It's pointless to refer glibly to 'the man on the Clapham bus' or to say that we're all different. Statistically, in this age of computers, we should have a factual answer.

We know how many of our colleagues throughout our various professional bodies are divided into the practising or industrial categories, and how many two, three, or ten or more partner firms have been established. What we don't know is the numbers of our fellow members in the different branches of business, be they in retail stores, or electronics, or hospitals, or financial trusts, or chemicals. We don't see the percentages of those with additional qualifications – B.Sc.s to Ph.D.s – or of those who never got an 'O' level, let alone an 'A'.

How many accountants joined the Services in the two world wars, play scratch golf, have climbed to the top of the tree or of the Matterhorn, or won chess championships? How many are grandsons of farmers or Cabinet Ministers, or come from large families, or plan to retire early, or disapprove of easy abortions or of euthanasia?

How many circulars, or how elaborate an operation must we plan to achieve a composite picture of the typical accountant, justifying or otherwise the snide allusions so common among our detractors?

Well, every year, on the subscription demand I receive from the Institute, I fill in a few details of my present position. If a couple of score or so of little boxes (number of children . . . of wives . . . of parking violations) with appropriate code numbers were added every ten years, say, the census completion shouldn't be too onerous for us. Then away with the forms for punching and processing. After that its merely a matter of analysis – child's play to the simplest computer program.

Sir Walter Scott's letter to his nephew in 1820, stipulating 'steady, cautious, fond of sedentary life and quiet pursuits, and at the same time proficient in arithmetic, with a disposition towards the prosecution of its highest branches' as typical of the qualities of an accountant, may be shown to be inaccurate a century and a half later. Maybe, of course, the robot's answer might be even worse!

Taxation Cases

Beattie v. Jenkinson

In the High Court of Justice (Chancery Division) – March 12th, 1971

(Before Mr Justice FOSTER)

Capital gains tax – Short-term capital gain – Agreement to purchase farm – Deposit almost wholly by loan from third party – Taxpayer unable to find balance of purchase money – Loan by bank – Farm conveyed to third party – Sale of land to third party – Resale by third party to taxpayer – Sale of part of farm by taxpayer – Taxpayer in occupation of farm in interval – Date of acquisition by taxpayer – Finance Act 1962, sections 10, 12.

At an auction sale on February 16th, 1962, the taxpayer agreed to purchase a farm for £8,700, and at the end of the auction he signed a memorandum of the agreement. The deposit of £870 was provided as £800 by a loan from Mr C. V. Passmore and £70 from the taxpayer's own resources. The taxpayer was unable to find the balance of £7,830, but Lloyds Bank agreed to lend £6,000 to Mr Passmore provided that the farm was conveyed into Mr Passmore's name. On June 8th, 1962, the farm was conveyed by the vendor to Mr Passmore at the price of £8,700. On August 16th, 1963, the taxpayer contracted with Mr Passmore for the purchase of the farm at a price of £8,025. It was recited in the contract that Mr Passmore was selling as beneficial owner. The price of £8,025 was made up by certain payments which had been made by Mr Passmore, including solicitor's charges. These payments came to £9,093, from which was deducted the amount paid by the taxpayer £1,070, and then a cash payment was made by Mr Passmore to the taxpayer bringing the total thus left to £8,025.

On March 1st, 1965, the taxpayer agreed to sell part of the farm to a Mr Preston for £15,100. On March 25th, 1965, the whole farm was conveyed by Mr Passmore to the taxpayer at the price of £8,025. On March 29th, 1965, the taxpayer conveyed a part of the farm to Mr Preston. At no time between the contract of February 16th, 1962, and the conveyance of June 8th, 1962, did the taxpayer have sufficient funds to complete the purchase of the farm. The taxpayer and his solicitor and the solicitor for Mr Passmore at all times regarded Mr Passmore as having entered into the transaction to help the taxpayer out of a difficulty. As soon as the conveyance of June 8th, 1962, had been completed, Mr Passmore told his solicitor that he wished to discuss the repurchase of the farm by the taxpayer, At the date of this conveyance the contract of February 16th. 1962 was overdue for completion, and the vendor was threatening to rescind, and to forfeit the deposit; and the transaction between Mr Passmore and the taxpayer was carried through in the form of the conveyance of June 8th, 1962 in order to save time. During the period between June 8th, 1962 and March 29th, 1965, the taxpayer was in occupation of the farm; he regarded himself as the owner; and he was responsible for paying all outgoings.

An assessment under Case VII of Schedule D was made on the taxpayer for 1964–65 on the basis that he had made a short-term gain, when he disposed of the portion of the farm to Mr Preston. For the taxpayer it was contended that he had acquired the farm on February 16th, 1962; and that as the disposal of the part in question was on March 1st, 1965, more than three years afterwards, the transaction was exempt from tax. It was also contended for the taxpayer that the acquisition of the farm by him was prior to April 10th, 1962; and that the transaction was exempt from tax for that reason also. It was contended for the Revenue that the taxpayer had acquired the farm on August 16th, 1963, from Mr Passmore, and had disposed of it to Mr Preston on March 1st, 1965, so that the transaction was within the three years and was caught by section 10. The General Commissioners decided in favour of the Revenue.

Held: the General Commissioners' decision was correct.

Times Newspapers Ltd v. CIR

In the High Court of Justice (Chancery Division) – March 17th, 1971

(Before Mr Justice PLOWMAN)

Stamp duty – Transfer on sale – Creation of wholly-owned subsidiary – Use of antecedent overdraft – Whether consideration provided indirectly – Interest on duty repaid – Finance Act 1930, section 42 – Finance Act 1938, section 50 – Finance Act 1965, section 91.

Times Publishing Co Ltd (TPC) was incorporated in 1908, and Thomson Newspapers Ltd (Thomson) in 1925. Negotiations between TPC and Thomson for a merger of *The Times* and *The Sunday Times* began in September 1966, and on October 14th of that year an arrangement was set out in a document for submission to the Monopolies Commission. On December 22nd, 1966, Times Newspapers Ltd (TN) was incorporated with an authorized capital of £100, and one of its objects was to acquire the two newspaper undertakings. Two shares were issued to subscribers, who were nominees of TPC, and TN thus became a wholly-owned subsidiary of TPC. Earlier, in 1964, TPC had made an arrangement with its banker for an overdraft up to £2½ million without security and at December 31st, 1966, the actual overdraft was approximately £515,000. At the time of the merger it was arranged that the overdraft facilities would continue for the benefit of TN with a limit in the first instance of £2 million without security.

On December 13th, 1966, at a board meeting of TN the two subscriber shares were transferred to other nominees of TPC, and the documents transferring the business of TPC to TN were executed. One of these documents was an agreement whereby TPC agreed to sell to TN its publishing business including the goodwill thereof for a consideration consisting of (*a*) £1,150,000, (*b*) the delivery to TPC of an unsecured promissory note for £1 million payable on January 1st, 1977, and bearing interest in the meanwhile, and (*c*) an undertaking to pay to TPC a sum dependent on the profits of TN for a stated period. On the same day the promissory note for £1 million was given by TN to TPC.

On January 4th, 1967, all the 'A' shares in TN were issued to Thomson for cash, and thereupon TN ceased

to be a subsidiary of TPC. On the same day the capital of TN was increased to 850,000, by the creation of 849,910 new 'A' shares, with a view to acquiring *The Sunday Times*. The capital of TN was then further increased to £1 million by the creation of 74,995 new 'B' shares and a like number of new 'C' shares, and new articles of association were adopted. The 'A' shares carried the right, by way of dividend, to the first £1 million of profit in each year, less corporation tax attributable thereto and, after that, the profits were divisible between the A, B and C shares rateably. On the same day, January 4th, 1967, Thomson sold *The Sunday Times* business to TN in consideration of 849,910 'A' shares, and these were duly allotted.

On February 22nd, 1967 TPC was allotted the additional 'B' and 'C' shares above, and the two subscriber shares were treated as fully paid up. TN's liability to pay £150,000 of the £1,150,000 by March 31st, 1967, was thus satisfied. On March 29th, 1967, the balance of that sum, namely, £1 million was paid by TN to TPC out of money borrowed pursuant to the overdraft, which had been increased in the meanwhile to £3½ million. Thus, *The Times* and its assets became vested in TN, and this company was then controlled by Thomson.

It was contended for TN that the relative documents were not executed in pursuance of or in connection with an arrangement where under the consideration for the transfer of *The Times* and its business was to be provided directly or indirectly by Thomson. It was not enough for the Revenue to argue that there was an inference that Thomson had provided the consideration; there had to be an arrangement that it would do so, and there was no such arrangement. For the Revenue it was contended with the onus on TN to satisfy the Court that the documents were not executed pursuant to such an arrangement had not been satisfied.

Held: the contention for the company was correct.

Owen *v.* Burden

In the High Court of Justice (Chancery Division) – March 23rd, 1971

(Before Mr Justice PLOWMAN)

Employment – Engineer and county surveyor – Visit abroad to World Road Conference – Whether expenses allowable – Income Tax Act 1952, Schedule 9, paragraph 7.

The taxpayer, the Engineer and County Surveyor of Denbigh, attended the World Road Conference in Tokyo in November 1967. An important feature of the taxpayer's work as County Surveyor concerned a by-pass scheme in which three other authorities were also involved. The taxpayer devised a scheme involving the building of a bridge on dry land, whereas the other authorities wished the bridge to be in a river. At the World Road Conference the taxpayer asked a question as to the relative costs of two such bridges, and he received an answer which supported his own opinion. The net expenses of the visit came to £485.

The taxpayer contended that he needed an independent and second opinion as to the relative cost of the two bridge schemes; and that that involved him going to Tokyo, where he obtained the opinion he desired to have. It was contended for the Revenue that the taxpayer was not necessarily obliged to incur the expense; and that it was not incurred wholly, exclusively and necessarily in the performance of his duties. The General Commissioners decided in favour of the Revenue.

Held: the General Commissioners' decision was correct.

Ball *v.* Johnson

In the High Court of Justice (Chancery Division) – March 29th, 1971

(Before Mr Justice PLOWMAN)

Employment – Employee of bank – Assistant accountant – Required to sit for examinations of Institute of Bankers – To qualify himself for service of bank – Awards for passing examinations – Whether awards assessable – Income Tax Act 1952, section 156 – Finance Act 1956, section 10, Schedule 2.

The taxpayer had been employed by the Midland Bank since October 1959, and had risen from junior clerical work to the position of assistant accountant. His terms of employment required him to sit for the examinations of the Institute of Bankers in order to better qualify himself for his duties in the service of the bank. The taxpayer sat for the examinations, and in May 1962 he completed Part I, and in the following August the bank paid him £30. In April 1966 he completed Part II, and in the following August the bank paid him £100. These payments were in accordance with the bank's practice as stated in its staff handbook. They were discretionary.

It was contended for the taxpayer that the two sums of £30 and £100 were not remuneration from his employment, and were not made to him in his capacity as an employee of the bank. It was contended for the Revenue that the two sums were received from the taxpayer's employer, and were remuneration of his employment. The General Commissioners for the City of London decided in favour of the taxpayer.

Held: the General Commissioners' decision was correct.

Thurgood *v.* Slarke

In the High Court of Justice (Chancery Division) – April 1st, 1971

(Before Mr Justice PLOWMAN)

Bank interest – Rents from Australia – Taxpayer resident in United Kingdom – Income not remitted – Returns stating 'None' against such sources of income – Whether fraud or wilful default – Whether neglect – Normal year assessment before Finance Act 1960 – Whether earlier assessments valid – Income Tax Act 1952, sections 25, 47, 52, 55, 229 – Finance Act 1960, sections 44, 51, 63.

The taxpayer was resident in the United Kingdom for 1947–48 to 1955–56, and bank interest and rents accrued to him in Australia, but were not remitted to this country. In each of his tax returns the word 'None' was written against the entry relating to Dominion and foreign securities and possessions. The taxpayer's returns for 1945–46 to 1955–56 were prepared for him by a qualified accountant, but the accountant retired in November 1956, and thereafter the taxpayer employed a firm of chartered accountants, who in May 1957 wrote to the Inspector of Taxes that there might have been omissions from the taxpayer's returns. The taxpayer signed the returns for 1945–46 to 1955–56. The taxpayer stated that he had asked his former accountant about the Australian income, and had been informed that as it had not been received in the United Kingdom, it was not taxable.

The General Commissioners found that fraud or wilful default had not been established, but that neglect had been proved, and they confirmed the assessments. It was contended for the taxpayer that the assessments were invalid, in that section 51 of the Finance Act 1960 did not apply retrospectively. The General Commissioners decided in favour of the Revenue.

Held: the General Commissioners' decision was correct.

Machinery of Taxation

by H. S. A. MACNAIR, F.C.A.

In recent times there has been a marked increase in public concern with the quality of justice, not only in Her Majesty's Courts but wherever administration of justice is entrusted to tribunals set up under the authority of Parliament, and indeed in the private courts of voluntary associations.
The absence of a formal constitution has not precluded an appeal to abstract concepts, among which the ideal of 'natural justice' has achieved much popularity. This ideal is examined here in a tax context.

THE statutory apparatus for bringing about a flow of direct taxes to the Treasury may be considered under four main headings. There are executive rules which bring into being a department authorized and able to carry out the necessary administrative tasks, tribunals to regulate disputes, and a service of collection and enforcement. From the taxpayer's point of view the next three headings are relevant:

(*a*) the administrative steps whereby information is applied for, its collection enforced if need be, and finally interpreted so as to bring it into meaningful relationship with the rules which impose liability;

(*b*) a formal charging function, to which is allied the right to dispute the charge imposed and all the consequences which a dispute entails; and

(*c*) finally, when the amount exigible has been determined beyond dispute, its collection.

The absence hitherto of any responsibility on the part of the taxpayer for the formal imposition of the charge upon himself, as occurs under self-assessment systems, has perhaps encouraged an attitude of irresponsibility on the part of United Kingdom taxpayers. It may be true that many look upon the system as akin to a vast fruit machine, emptying and sometimes refilling the taxpayer's pockets with the inconsequence of ERNIE and his lesser brethren. Even the most ardent amateur may be baffled by the variations in the preceding and current year bases which determine his liability, while the operation of personal allowances is frequently masked by the intricacies of earned income relief.

Unambiguous chain of law

It has long been accepted that tax is a game which must be played strictly according to the rules. Admittedly the line may seem blurred between the administrative interpretation of the facts put forward by the taxpayer and the formal procedure of charge and discharge. However, the cutting of a few corners and an occasional wink on the part of the authorities does not derogate from the right of every taxpayer to have the law applied strictly in accordance with its terms. Thus the published extra-statutory concessions are nothing more than a collection of prospective winks which can in no way bind the taxpayer. Indeed, the Revenue authorities specifically reserve for themselves the right not to wink if it does not please them to do so.

The personnel called into the service of taxation owe their authority to the Taxes Management Act 1970. The care and management of income tax, corporation tax and capital gains tax is entrusted to the Commissioners of Inland Revenue, a body functioning under the authority of the Inland Revenue Regulation Act 1890. Apart from exacting a declaration of secrecy from the Commissioners and their servants and authorizing continuity of functions as between one inspector or collector and another, the Act does not bother further about the *modus operandi* of the department. A good deal more space is devoted to the appointment of General Commissioners and their clerks, and Special Commissioners.

The making of the declaration of secrecy marks the formal initiation of a true tax expert. The declaration is enjoined also for members of the Board of Referees created for the almost obsolete task of adjudicating upon disputed rates of wear and tear for machinery or plant, and for the very much alive tribunal set up for the purposes of the anti-avoidance rules of the 1960 Act (now found in Chapter I of Part XVII of the Income and Corporation Taxes Act 1970.

General Commissioners

Some information as to the relative importance of the General Commissioners may be gleaned from the 1969–70 report of the Council on Tribunals (which exercises a general supervisory function over a miscellany of statutory tribunals). There are only eight Special Commissioners but no less than 619 bodies of General Commissioners.

These figures by themselves are inconclusive, for in the year reported on as many as 2,405 contentious appeals were heard by the stipendiary Special Commissioners, whereas their volunteer brethren dealt with half that number. On the other hand, over one-third of a million delay cases were processed by the

various General Commissioners. To complete the tally, it appears that there were three wear and tear cases in 1969 to occupy the Board of Referees. That the activities of the anti-avoidance tribunal were confined to only 39 cases comes as something of a surprise, having regard to the publicity accorded to their deliberations by the case of *Wiseman v. Borneman* (45 TC 540; 48 ATC 278).

The General Commissioners act for separate areas in Great Britain, termed 'divisions' – not to be confused with the districts over which inspectors hold sway. In England and Wales these Commissioners hold office at the pleasure of the Lord Chancellor. Although unremunerated, General Commissioners are reimbursed travelling expenses for distances above three miles, including, for instance, a car mileage allowance graduated according to the engine capacity. The Chancellor manifests his 'pleasure' on the basis of recommendations by local advisory committees that the candidate is personally suitable in point of character, integrity and understanding and that he has some knowledge or experience of the administration of income tax legislation and of the way in which this affects taxpayers.

Particular importance is attached to local knowledge associated with place of work or residence. An extensive programme of reorganization of the boundaries of divisions (established long ago) has recently been inaugurated and is pressed steadily forward with little publicity.

Obtaining information

Part II of the Taxes Management Act 1970 sets out the duties of persons to supply information about their own affairs for tax purposes and Part III extends this to the affairs of others. Everyone has a duty to give notice of chargeability within a year of the period chargeable, although the maximum penalty of £100 is scarcely significant in itself.

In particular, section 17 imposes a limited duty to respond to a notice from an Inspector requiring a return of interest paid or credited to others without deduction of income tax, if received or retained in the United Kingdom. However, any creditor may serve a notice in writing on his debtor declaring that he (the creditor) was not ordinarily resident in the United Kingdom when the interest was paid or credited and 'requesting' the debtor not to include that item in the return to the Revenue. This statutory acquiescence in tax avoidance is supported by extra-statutory concessions which limit official action to restriction of any repayment claims. The concession does not extend to cases where a branch, agency or agent in the United Kingdom is answerable on behalf of the non-resident.

A useful conspectus of the range of possible Revenue demands for information is afforded by the tables in section 98 of the Taxes Management Act 1970, in the context of penalties for neglecting to supply information. There is a merciful provision that no penalty is exigible under this particular section if the failure is remedied before proceedings for the recovery of the penalty are commenced. However, the maximum initial penalty of £50 is capable of augmentation at the rate of £10 for each day of default.

Although it is notorious that the Revenue commonly rely on an increasing scale of arbitrary assessments to induce taxpayers to provide information, this procedure is not properly available where the Revenue are not already in possession of information as to the existence of a particular source of income. Such assessments may serve their purpose when a trader neglects to submit accounts at the usual time, or an individual has failed to return particulars of recurrent bank deposit interest. Perhaps the paucity of reported cases in which the Revenue claimed penalties merely indicates that the delinquent readily recognizes his default.

The case of *CIR v. Elcock* (35 TC 27) was taken under the legislation in force before 1960 which was in comparable terms. It is interesting to observe that the earlier law applied only if a person 'without reasonable excuse' failed to furnish the required document, whereas section 98 of the Taxes Management Act 1970 offers no more than a time sanctuary in which to effect performance. However, in *Elcock's* case no evidence of 'reasonable excuse' was offered and the comments by Sellers, J., do offer some indication of the attitude of the Courts, the probable quantum of of the tax in view and repetition of non-compliance being adverse factors.

In the recent case of *Mankowitz v. Special Commissioners* (*The Accountant*, March 18th) penalties at the rate of £7·50 per day were imposed for 192 days' default, following the initial £50 penalty in respect of each of four notices requiring information.

Proceedings before Commissioners

The normal assessment procedure has been shorn of much of its *mystique* now that this is mainly the task of Inspectors, although there seems to be an administrative custom of devoting the third Monday of the month to this exercise. Where, however, it is sought to effect assessments outside the normal six-year time limit, the intricacies bid fair to rival those of Alice in Wonderland's game of croquet.

Little difficulty attaches to the concept of a 'normal year', the subject of an assessment within the normal time limits, although in this context it is assumed that the assessment has been made for the purpose of making good to the Crown a loss of tax wholly or partly attributable to the fraud, wilful default or neglect of the person assessed. Similar grounds are required in order to go outside the normal time limits, but it is probably unnecessary to spell them out in detail.

The authority for 'abnormal' assessments is to be found in sections 37 (income tax and capital gains tax), 38 (partnerships), 39 (corporation tax) and 40 (executors) together with section 36 which authorizes action

back to 1936–37 where 'any form of fraud or wilful default has been committed by or on behalf of any person in connection with or in relation to tax'. However, 'abnormal' assessments may only be made with the leave of a General or Special Commissioner, given on being satisfied by an inspector or other officer of the Board that there are reasonable grounds for believing that tax has or may have been lost to the Crown as mentioned above.

There appears to be some overlapping between the terms of section 37 (7) which entitle the person to be assessed to appear and be heard on the application to the Commissioners by the Inspector or the Board for leave, and the terms of section 41 which omit this entitlement, so far as concerns the first tranche of six years mentioned in section 37 (income tax and capital gains tax) and section 39 (corporation tax). Partners and former partners are brought within the ambit of section 37 by the associative terms of section 38.

Section 41 originated as section 6 of the Income Tax Management Act 1964 but, as Parliament must be presumed to have been aware of the rights previously conferred on prospective assessees by sections 37 and 39, it follows that the separate enactment authorizing assessments without audience must be taken as an intentional opening of an alternative avenue.

Rope in six-year coils

The problem was ventilated in *Day v. Williams* (47 ATC 459) where the taxpayer acted as advocate in his own cause. However, that does not detract from the authority of the decision in the Chancery Division by Cross, J., now translated to the House of Lords after two years in the Court of Appeal, and of the Court of Appeal itself (48 ATC 422). Despite criticism of the statutory language, no fault could be found in the powers conferred by section 41 in its original guise in the Taxes Management Act of 1964. However, it is arguable that it is precisely at the point at which the normal range of the Revenue lasso terminates that it is most desirable that the fugitive taxpayer should have the right to raise his voice.

That the sheriff's posse of Commissioners are required to hear the fugitive's plea before additional lengths of rope may be sent snaking after him in six-year coils is little consolation. A tentative verdict of 'guilty' will have been arrived at in his absence on the earlier occasion and this circumstance seems bound to exercise its influence on later deliberations.

After all, section 41 invites the Revenue representative to satisfy the Commissioners that tax *has been lost owing to the fraud, wilful default or neglect* of the prospective assessee or may have been so lost. Once permission has been granted, the taxpayer finds himself at an immediate disadvantage because the onus of disproving the assessments rests with him, yet the chances of adducing evidence in his favour diminish with the years.

It is on the question as to whether natural justice is satisfied in this context that an attack has been mounted against the principle in *Day v. Williams*. This was invoked to dismiss the taxpayer's appeal in *Pearlberg v. Varty* (49 ATC 30), but when he pursued the matter to the Court of Appeal he obtained a sympathetic hearing, influenced by the dicta in *Wiseman v. Borneman* (46 ATC 439), although the sympathy won him no more than the right to take the appeal to the House of Lords.

The basic issue, as it appeared to the Court of Appeal in *Pearlberg*, was whether the granting of leave and the making of the first 'abnormal' assessment fell to be regarded as part of the group of administrative tasks considered at the outset of this article, or whether it partook of the nature of a judicial function in which the formal contentions of Revenue and taxpayer fall to be resolved. In *Wiseman v. Borneman*, the House of Lords decided that the preliminary approach to the tribunal set up for the purposes of what is now section 460 of the Taxes Act 1970 was not an operation of the same judicial quality as the proceedings before the same tribunal as a result of an appeal from a determination by the Special Commissioners. It was thus possible to accept the proposition that, while the so-called rules of natural justice make it essential that each party should have an opportunity of being heard in any proceedings of a final character, no such absolute right can be invoked where the taxpayer is granted a short-stop procedure over and above the normal conditions of play.

Refining the quality of mercy

To one not deeply versed in the law, it seems that on occasion the House of Lords has delivered, in tax matters, a decision inviting challenge rather than endorsement. Such an occasion appears in *Wiseman v. Borneman* from the dictum of Lord Guest:

> 'I can see no reason why, if the principles of natural justice have to be applied to a tribunal entrusted with a final decision, the same should not be true of a tribunal which has to decide a preliminary point which may affect parties' rights.'

In *Pearlberg v. Varty*, the Courts considered this point in relation to the General Commissioners' powers to grant leave for an 'abnormal' assessment without hearing the taxpayer, but one is scarcely convinced by Lord Denning's observation that the taxpayer has of course the right to appeal against this further round of assessments. If that is sufficient protection, why bother about leave? On the contrary, most of the judgments showed deep concern with the dicta of Lord Wilberforce (in *Wiseman*) that 'the decision of the tribunal may have the effect of denying the taxpayer the opportunity of eliminating, *in limine*, a claim which may otherwise have to be fought expensively through a chain of courts'.

It will be poetic justice at least if the persistence of the taxpayer in *Pearlberg v. Varty* is rewarded by a favourable ruling in the House of Lords.

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LETTER FROM AMERICA

Putting the Clocks Forward

From Our New York Correspondent

AMERICAN practice is to hurry out with the company's annual report during March if possible, but certainly not to wait until the late summer, as is still considered early enough by some British and European companies.

This haste puts extra strains on accountants and auditors. It also means that stockholders and analysts are loaded with reading material during that otherwise happy season – the last Sunday in April – when America's clocks go forward for summer time. This season's crop of annual reports, now available for nearly all the major companies that use the calendar year as their standard accounting period, shows the usual punctuality and more than the usual amount of accounting detail.

Reviewing recent progress in financial reporting, Mr Marshall S. Armstrong, President of the American Institute of CPAs, concluded that the American investor is 'the best informed in the world'. Although such claims are difficult to substantiate, there is no doubt at all that the holder of major American stocks can now find out a great deal (and yet not always enough) about the company's affairs.

Funds flow statements, for instance, are extremely revealing in an age of chronic inflation, especially for companies with heavy investments in depreciable assets or large capital expenditure programmes. Nearly ten years have passed since the American Accounting Principles Board recommended the inclusion of a statement on the source and application of funds. The Board pointed out that companies ignoring the recommendation would bear the burden of justifying their decision; in fact, these statements (still rare in Britain) are included in the majority of 1970 reports.

Another standard feature of American reports is the inclusion of a sales revenue figure, usually going back for the last ten years. Much newer is the practice of subdividing this turnover figure according to a company's major lines of business and indicating the extent to which each of them contributed to net earnings. This information is now required in an annual statement to the Securities and Exchange Commission, and may (at considerable inconvenience) be reviewed by analysts and other members of the public.

As a gesture of goodwill, many companies have decided to include similar details in their annual reports to stockholders. The larger companies are also adopting the welcome practice of providing a geographical analysis of sales and earnings.

In contrast to this more generous approach to statistics, some observers claim that companies are becoming more niggardly in their use of colour photography, art paper, lengthy executive interviews and other manifestations of the bedside manner. The reports certainly seem smaller – particularly in the case of the many companies whose performance slumped last year. Yet the general impression is still lavish enough to make it hard for a frugal British reader to discard either the 1970 or the preceding year's copy. First National City publishes in three languages, Girard Trust adds a long essay by Miss Barbara Ward and Sterling Drug offers a fold-out nude – although the model is apparently still in her infancy. None of these documents bear the evidence of drastic belt-tightening shown in the 1970 report of The Institute of Chartered Accountants in England and Wales.

An interesting change is the tendency of the annual-report habit to spread beyond the business fraternity. Government agencies, such as the Departments of State and Interior, have for many years presented an annual accounting to Congress. The suggestion is now made by Mr Marshall that the defence services, trade unions and educational organizations should adopt the practice of public reporting.

Intriguing philosophical questions at once spring to mind. What would be a fair depreciation rate for an anti-ballistic missile system that had never been fired in anger; or how would the productivity of education be measured? Undoubtedly, however, the extension of accounting disciplines to fields such as these could be of immense value to the public as well as the reporting body.

At the same time, there is a trend for annual reports to be subjected to a new kind of baptism by fire. Annual meetings in the United States are no longer the sweet, reasonable gatherings that they once were. While there is no legal requirement for directors of an American company to hold shares in it, opposition groups have stumbled upon the fact that, by buying a single share, they can make themselves loudly heard even at the most august meetings.

'Endangering corporate democracy'

Phelps Dodge has recently appealed to the SEC to permit exclusion, from the proxy material sent to stockholders, of a list of proposals sent in by a Washington lawyer owning only one share in the company. The argument is made that inclusion of these and similar proposals would cost the equivalent of several hundred pounds in legal and other professional fees and printing costs. This, the company claims 'could ultimately endanger corporate democracy'. A similar case, involving Dow Chemical, is now before the Supreme Court.

Most of the proposals put forward to Phelps Dodge and other companies appear serious enough. They include, in addition to a call for greater corporate responsibility, a request for quarterly figures on assets to supplement the quarterly income statements commonly issued by American companies. They propose limitations on the issuing of stock options to company personnel. They suggest, too, that annual meetings should be scattered around the country rather than being always held in New York.

This would be a popular proposal for those wealthy New Yorkers who choose to run a £40,000 helicopter on an expense account. It must be admitted, however, that the annual meeting machinery would quickly bog down if these stockholder 'gadflies' began to swarm.

The Computer Approach to Accounting Data – I

Programming Business Data

by HAROLD LUCAS, B.Com., B.Sc.(Econ.), A.C.I.S., A.I.S., A.M.B.I.M.

All computing activity is directed towards manipulating data, of whatever form, to give the information required by the computer user. This short series of articles is concerned with the problems arising in connection with bulk commercial data with which most commercial computing effort is involved.

TRADITION divides computer usage into two compartments, of which the first is scientific and mathematical computing. This may seem irrelevant to the business manager and accountant until we recognize that in this field must be included all calculations concerned with business decisions, higher control, operational research, and the like. Such calculations are not the subject of the present series; readers who are interested may care to refer to three previous articles by the present writer entitled 'Finger-tip computing'. (*The Accountant*, July 30th, August 6th and 20th, 1970.)

The second compartment is business data processing, concerned with the routine of dealing with, for example, sales and purchase ledgers, payrolls, stock records, including book-keeping activities with associated documents, analyses and, possibly, the preparation of final accounts. This is our present field of reference and we shall be concerned with coding and accessing such data in computer systems.

Characteristics of business data processing

The division between scientific and business data processing may be justified when the particular circumstances associated with each are considered.

If we concentrate on business data processing we find the typical situation is as follows:

(*a*) *Much of the data is not of the simple single-number kind*, such as often applies with scientific calculations. Data is complicated in that frequently a large number of data items are associated in each data record.

Thus, with a sales ledger account, the computer processing may be basically concerned with up-dating the balances, but associated with these will be account numbers, names, addresses for billing and for delivery, and credit control details; in fact most of the information that would be available in the ledgers and sales files of a conventional system. It is the problems associated with describing such data in a way the computer can understand that tends to make commercial programming languages such as COBOL appear so formidable to the average accountant and even to programmers experienced in scientific programming languages.

(*b*) *Calculations tend to be simple in the majority of cases.* Addition, subtraction, multiplication and division, applied in a very elementary way, are all that is needed in most commercial programs, compared with the often complicated formulae used in scientific work. Some of the more involved work may be associated with routines to calculate, as part of a program, figures that would be obtained from tables in manual book-keeping.

(*c*) *A computer system can usually only be justified if there is considerable volume of work.* The implication is that programs are written to cope with the important activities and processing is usually done in batches, where the same routine is used, perhaps for thousands of accounts. The volume of material and the size of individual records generally make it impossible to read the whole into the immediate access store of a computer, so it has to be handled piecemeal.

The development of real-time computing and the use of terminals and disc storage has made inroads on this concept. Later we shall consider the impact of some of these systems.

(*d*) *Data is organized in files.* A 'file' in this context is a set of data; that is, data that has recognizable overall characteristics, and usually organized in some way (such as occurring in account number order), or capable of being so organized. A typical file held on punched cards or on magnetic tape is really a copy of the essentials of the relevant written documents. The order in which data appears on a master file held on tape controls the order in which it is practical to do the processing, so that updating material must previously be assembled in this order.

Modern equipment, particularly small computers or pseudo-terminals can be of considerable assistance in connection with this housekeeping work. Disc systems permit of greater flexibility of approach.

(*e*) *Individual data items can assume great significance in the running of a business.* A customer may query his account; details relating to an employee may be urgently required. It is in this connection that great difficulties have been encountered with the conven-

Fig. 1. A computer configuration.

tional larger type of computer, and this provides a main reason for the development of small and visible record computers in the 1960s.

The present growth in the number of such installations seems to indicate a trend that will radically alter concepts of computing based on separate computer departments. They bring computing under the control of accountants and other business departmental heads. Alongside these developments we have the growth of larger scale computers with multi-access facilities, and the possibility of extracting file information very rapidly through video terminals. Because of the facilities for performing complicated calculations rapidly and for estimating the effects of complex relationships between business data these systems themselves challenge the average visible record system.

(*f*) *Security against fraud and error must be built into any viable business data processing system.* Much effort has lately been devoted by manufacturers to the simplification of coding data into files. The tendency, again, is to use small computers to relieve main computers of housekeeping activities.

Commercial data processing

With manual book-keeping the clerks involved have to be taught:

(*a*) Where to find the data they require.

(*b*) How to pick out the items significant to the work they are doing.

(*c*) Where to post the relevant data.

(*d*) How to perform any related calculations.

In addition checks will be applied to ensure the accuracy of the work.

In the case of computer systems we have, corresponding to the above:

(*a*) Devices for 'reading' information stored on file or input through some device such as a keyboard. The 'file' may be, for example, one or several reels of magnetic tape, a deck of punched cards, a reel of punched paper tape, or part of a disc storage system.

(*b*) Information relating to the order in which the facts relevant to each separate record will be stored and the space that they will occupy. With manual methods the order in which data is presented is generally standardized for the same form and as between related forms. In addition, however, the clerk can generally make a visual check, using printed column headings and other references. Information stored in a computer system is generally much more dependent on sequence and space allocation than would be the case in manual systems.

(*c*) Devices for 'printing' or 'writing' processed information for output and, possibly, for storage. In the computing sense this implies not only printing

records on normal stationery to be read by the human eye but also the outputting of records on to magnetic tapes or discs or as punched cards or paper tape.

These three important aspects of computerized accounting are mainly the province of peripheral devices. Calculations are performed by the central processing unit (CPU) which is the heart of the computer configuration. All data required for the particular item of processing being done at any instant must, however, be present in immediate access store of the computer memory.

Checks normally play a very important part in electronic data processing. Some are involved at the coding stage when, say, a card punch operator is converting written information into a form suited to computer input. When such checking involves complete verification of the encoding, as done on conventional punched card and paper tape systems, the hours spent converting data to input form will be twice what might seem to be the case at first glance. The checking at this stage may be reduced by the introduction of character recognition equipment.

A schematic diagram of a possible computer configuration is shown in Fig. 1. This employs some of the symbols used for designating particular forms of peripherals. It should be noted that equipment such as magnetic tape units, disc drives and console typewriters may function as input or as output devices, and this is determined by the program, whereas equipment such as paper-tape readers and line printers may function in only one form. Where two or more input devices are used in a particular run the program must indicate to the computer to which particular device it must look for the information it currently requires.

COBOL programming

COBOL is probably the most widely used of the so-called high-level programming languages, at least for commercial applications. It has been available since 1960, in successively improved versions, and its intention is shown by its name – COmmon Business Oriental Language.

High-level languages approach the problem of programming computers on the assumption that programs should be capable of being written in a form that is independent of the particular make and model of computer being used. Programming was originally done in machine code, which was specific to particular computers, unintelligible to a person not trained in the code, and involved all the steps of moving data within the computer memory. Ultimately machine code is the only code a computer understands.

High-level languages operate by using a translator usually called a *compiler*, really a special program that is fed into the computer first and which converts the high-level program (called the *source* program) into an *object* program that the computer can use. A prerequisite is that the computer manufacturer has written an appropriate compiler for use with his equipment.

It is possible either to store the source program and to 'translate' it each time it is used, or to store the

Fig. 2. Two approaches to compiling programs.

Fig. 3. Equivalent of COBOL data description.

translated or compiled object program and run it directly (see Fig. 2). This enables high-level programs to be not only independent of a particular computer but also framed in a way that makes them easy to understand and to learn. In this respect, COBOL is very satisfactory from the point of view of understanding how data is to be operated on. Its complexities lie chiefly in the way it describes the data to be handled. What follows is a brief attempt to explain how this is done.

It must first be noted that all COBOL programs are divided into four divisions:

(1) *Identification* division. The purpose is to provide a title for the program to enable it to be identified. It does not immediately concern us.

	LEVEL
PAY–RECORD	01
IDENTITY	02
NAME	03
STAFF–NO	03
LOCATION	03
DEPT	03
DATE	02
METHOD–OF–PAYMENT	02
PAY	02
BASIC	03
OVERTIME	03
OT–HRS	04
OT–PAY	04
ALLOWANCES	03
TAXED-ALLOWANCES	04
NON-TAXED ALLOWANCES	04
GROSS-PAY	03
DEDUCTIONS	02
TAX	03
SUPERANNUATION	03
N–I–BENEFIT	03
NAT–INSURANCE	03
STATE–PENSION	03
OTHER–DEDUCTIONS	03
TOTAL–DEDUCTIONS	03
NET–PAY	02
TAX–DETAILS	02
CODE	03
BASIS	03
TAXABLE–PAY–TO–DATE	03
TAX–PAID–TO–DATE	03
SUPERANNUATION–DETAILS	02
RATE–PER–CENT	03
SUPER–TO–DATE	03

Fig. 4. Payroll fields with possible groupings shown by COBOL levels.

(2) *Environment* division. Here the particular configuration being used is linked with the files mentioned in the program. Without going into detail it may be noted that this is frequently done by an instruction such as:

SELECT STOCK FILE ASSIGN TO DISC-1,

though a library of names may be available in which case instruction is to COPY the library name.

(3) *Data* division. Because of the complexities often present in commercial data this division may exceed in length the procedure division (see below) in which the data is manipulated.

COBOL breaks down data successively into files, blocks, records and items of data within records, which may be grouped using a system of levels as explained below.

A *file*, in computer terms, is any set of data capable of being handled by a computer. It may consist, for example, of a deck of punched cards that have been previously sorted, part or all of a reel of magnetic tape (with continuation tapes, if necessary) or tracks on a magnetic disc.

The names of files are shown in the first section (FILE SECTION) of the DATA DIVISION. The letters FD (file description) are followed by the name chosen by the programmer to describe that file. Whenever this name is referred to later in the program the computer will automatically look to the correct tape, or other device, involved.

Each file consists of a number, possibly thousands, of *records*. A MASTER-STOCK file could have a separate STOCK-ITEM-RECORD for each separate item of stock to be dealt with. Note that the names given to files, records and data elements are made up by the programmer (or systems analyst), generally subject to a maximum length of thirty characters.

Certain *key words* occur in COBOL which, having a special significance, must not be used as variables. Spaces must not occur, hyphens being used if compound names are desired.

Blocking of data implies that a number of records are grouped together for purposes of recording and input and output. This is done primarily for reasons of economy. For instance, with magnetic tape, a gap has to be left between each set of data read into the computer. This gap is needed to enable the tape to come up to reading or writing speed as it passes the read/write heads of the tape unit. If only one record is read at a time the gap may occupy more tape than the actual data. If several records are read into the computer memory at one time, by combining them into blocks, gaps need occur only at the start of each block, so the tape utilization is greatly improved. Blocking is indicated by a statement such as:

BLOCK CONTAINS 20 RECORDS.

With magnetic discs, one or more blocks read at the same time are termed a *bucket*.

Readers with a knowledge of punched card operations may like to compare what follows with the division of punched cards into *fields*, each consisting of one or more columns, occupying a fixed position on a card and signifying particular items of data.

The breakdown of the individual record into the equivalent of columns containing specific items of information is done, line-by-line, in the data division, using two-digit numbers to indicate the data *levels*. The higher the number the more detailed is the data to which it relates. Level 01 is used to indicate the record itself (e.g., STOCK-ITEM-RECORD).

If we were interested in showing only two items of

information for each record, say the stock code number and the current stock balance, each of these could be allocated the same next level number, say 02. The record description might be:

```
01 STOCK-ITEM-RECORD.
   02 STOCK–CODE.
   02 STOCK–BALANCE.
```

Data items that are to be considered as grouped for some purposes are shown at one level under a joint heading and at a level with a greater number to indicate the further breakdown. In the above case we might wish to record the code number and short alphabetic description for each stock item.

If both these elements of information were to be called for, perhaps for print-out, we might refer to them jointly as STOCK-ITEM. The numerical code might be STOCK-CODE, as before, and the description might be STOCK-NAME. The record description would then be:

```
01 STOCK–ITEM–RECORD.
   02 STOCK–ITEM.
      03 STOCK–CODE.
      03 STOCK–NAME.
   02 STOCK–BALANCE.
```

This information is not complete. It shows the sequence of the field layout of the imaginary record but does not indicate the space to be occupied by each.

This can be done by including a PICTURE clause which shows how many 'spaces' are occupied by the numbers or letters involved and the nature of these. The character 9 indicates a numerical character, A shows an alphabetic character, while X is for alpha-numeric characters (which can be alphabetic or numeric). An assumed decimal point is indicated by V and a number in parentheses indicates that the symbol preceding it is involved that number of times; thus A(4) is equivalent to AAAA.

In our example we might wish to accommodate a four-figure code number and a twenty-letter name, with a stock balance involving not more than five figures, without any decimal values. The record description then becomes

```
01 STOCK–ITEM–RECORD.
   02 STOCK-ITEM.
      03 STOCK–CODE        PICTURE 9999.
      03 STOCK–NAME        PICTURE A(20).
   02 STOCK–BALANCE        PICTURE 9 (5).
```

It will be seen that any data item that is itself broken down does not have a picture clause. Fig. 3 shows the equivalent layout as a printed form and Fig. 4 a more involved example. Remember that these records will be end to end along a tape or round a disc track.

Each time the balance is updated previous balance information disappears from the updated record but the descriptive information, such as STOCK–NAME, is 're-printed'. With handwritten or machine-posted cards the descriptive information would occur only once in the heading. The simple records we are imagining are equivalent to the last line of such a record, with its identifying information, printed in order, along with the last lines of all the other items.

This is by no means the complete story with regard to the data division. Among other important topics are:

(i) The manner of recording information as far as the computer is concerned.

(ii) The *alignment* of characters if the whole of the allotted field is not used.

(iii) Computer storage areas which are not part of a file but which are called for in *intermediate processing* are reserved in the WORKING-STORAGE SECTION of the DATA DIVISION.

(iv) *Low volume data* to be input or output through a keyboard are also included in the WORKING-STORAGE SECTION.

4. *Procedure* division. Here the data as defined in the data division is processed to give the required results.

Programming Language 1

This high-level language (Programming Language 1) has been developed by IBM to combine the virtues of COBOL, for commercial programming, with those of scientific languages, such as FORTRAN and ALGOL.

Since it is increasing in popularity we may note that a DECLARE statement lists the names of the variables to be used in the program. Levels can be used, as in COBOL. The simple stock record of Fig. 3 would appear as:

```
DECLARE 1 STOCK–ITEM–RECORD, 2 STOCK–ITEM,
3 STOCK–CODE PICTURE '9999', 3 STOCK–NAME CHARAC-
TER (20), 2 STOCK–BALANCE PICTURE '99999';
```

(Statements end with semi-colon).

In this example the numerical items have been specified by a PICTURE attribute and the character string by a CHARACTER (20) attribute.

Arithmetic data may also be controlled by attributes such as FIXED DECIMAL (5,2), indicating two decimal places, or FLOAT (5) indicating a five digit number where the position of the decimal point has not been fixed. Such specification is more efficient than that using picture attributes.

Report Program Generator

Another method much used in commercial and local government work is RPG (Report Program Generator) aimed at simplifying the production of reports (in the widest sense including documents such as statements and invoices) from files used by the computer.

In RPG there are three divisions to cover the specifications required. These are:

(1) *Input* specifications, on which the identities and field specifications of the punched cards to be used as input are listed line by line.

(2) *Calculation* specifications, where the two factors to be involved and the result field are shown, line by line; between the factors is written the operation, such as ADD, SUB, MULT.

(3) *Output* specifications, which control the format of printed or punched output.

A punched card is produced for each line of these specifications. When read into the computer which has the RPG generator program in store the full program results.

Such a system is of interest to accountants and auditors since it is easy to learn and to use and reduces the dependence on programmers. It is formulated to cope with some of the chief characteristics of commercial data processing as mentioned earlier in this article – simple arithmetic applied to often quite involved formal layout of data.

(*To be continued.*)

Books

Financial Accounting – A General Management Approach

by ALMAND R. COLEMAN.

John Wiley & Sons, £4·85.

There is a growing tendency for management and business training centres to produce their own textbooks on accounting for their students, so the scope for such books narrows as more and more become available. In a competitive world this may result in the best emerging triumphant; but the reviewer finds it difficult to enthuse over new books unless there is some feature which marks out a particular work as unique.

This book is especially apt in its problems and questions; they are true to life and therefore practical, thus fitting it for use in training in management accounting. The text is commendably free from the sort of academic language so often found in lengthy books, and by far the greater part of the print is devoted to discussion of problems and the facts relevant to those problems. It is therefore not only well suited to class work, but is also excellent reading for post-qualification study or as supplementary reading for students of final accounting examinations.

The Essentials of Corporation Tax

by W. E. PRITCHARD, B.A., A.T.I.I.

Longman, £1·75.

This is not another discourse on tax or a paraphrase of the relevant law. As a practical handbook designed to equip the user with a working knowledge of corporation tax, this highly numerate presentation breaks away from the mould in which the law is cast and illustrates the points to be grasped by means of worked examples which do not shirk the volume of figure-work likely to arise in a real life situation.

The outstanding feature is the questions for revision, with worked answers, some forty in number. The author has obviously met with the same experience as the reviewer in encountering examination students who lack a methodical approach to numerical questions, and this work will be a real boon to those concerned with the time factor.

This handy guide can certainly be recommended as a training manual for taxmen about to transfer to company work, although unsuitable as a permanent work of reference. Thus it is misleading to state (as it does on page 166) that a company can elect whether or not to claim capital allowances, in whole or in part. Moreover, the absence of more than passing references to capital gains overlooks their significance in company computations and planning.

Estate Duty on Settled Property

by JOHN MOWBRAY, B.A.

Sweet & Maxwell, £1·25.

The Finance Act 1969 brought about the most fundamental shift in estate duty law since 1894. The author emphasizes the need for a change of mental outlook, and the value of this work perhaps lies most in the opening up of fresh vistas; nor has he hesitated to indicate the possible direction of further changes, at least, if likely loopholes are to be stopped up.

The demise of capital gains tax on death adds fresh interest to the substantive duty on that occasion and its past history shows that rewards fall to be reaped by tax planners who are not only bold but clever enough to divine the meaning of the statute most likely to find favour with the Courts. The intricacies of the unconsolidated law are such that prospective readers should first provide themselves with the same publishers' *Guide to the Estate Duty Statutes* to which references are made, but in any event this book is only likely to benefit those already well acquainted with the subject.

Applied Statistics for Economists

Third edition, by P. H. KARMEL and M. POLASEK.

Pitman, £3.

This is an up-dated and revised edition of a standard textbook originally written by Professor Karmel. The new edition contains additional material on probability and significance, while the large section on Australian official statistics has been brought fully up to date. For the economics undergraduate, or postgraduate student with some knowledge of algebra, this book can be strongly recommended. It is clearly written and the treatment of all aspects of basic statistical methods is most thorough. An excellent chapter on demographic analysis is also included.

RECENT PUBLICATIONS

AN EXECUTIVE'S GUIDE TO COMPUTER CONCEPTS, by James E. Monsma and Kenneth F. Powell. ix+166 pp. 9½×6. Pitman, £1·80.

THE STOCK EXCHANGE AND INVESTMENT ANALYSIS, by R. J. Briston, B.SC.(ECON.), A.C.A. 493 pp. 9×5½. Allen & Unwin, £5·25; paperback £2·50.

CAPITAL BUDGETING, by Robert W. Johnson. viii+164 pp. 8½×5½. Wadsworth Publishing Company Inc., Belmont, California, $2·95; Prentice Hall, £1·50.

JANE'S MAJOR COMPANIES OF EUROPE, 1971 edition, edited by Lionel F. Gray. 9½×7. 1,750 pp. Sampson Low, Marston & Co Ltd, £15.

THE HOSPITALS YEAR BOOK 1971. Editor, N. W. Chaplin, 1,392 pp. 10×6. The Institute of Health Service Administrators, £7·25.

WILLIAMS AND MORTIMER ON EXECUTORS, ADMINISTRATORS AND PROBATE (being the 15th edition of *Williams on Executors* and the 3rd edition of *Mortimer on Probate*), by J. H. G. Sunnucks. 10×6. clxxxviii+1,172. Stevens & Sons, £18·50.

THE TRUSTEE'S HANDBOOK, second edition, by Anthony R. Mellows. xv+172 pp. 8½×5½. Solicitors' Law Stationery Society, paperback £2·30.

These books may be obtained from, or through, Gee & Co (Publishers) Ltd, The City Library, 151 Strand, London WC2R 1JJ.

FINANCE AND COMMERCE

When an Asset 'Situation' Attracts a Bid

IF a share becomes a 'situation', the price goes gay, and if a situation is translated into fact by a take-over bid, then the share price can go sky high. This week's reprint of the latest accounts of The Solicitors' Law Stationery Society presents the figures of a company which changed its form and thereby became a situation and, in the fullness of time, a take-over proposition.

At one time last year the Society's shares were as low as 52½p. Under the Society's articles the shares could only be held by solicitors, and then only in restricted numbers. But that condition was changed and the share price by the time the accounts were issued had risen to 350p or thereabouts. The shares had become an asset situation and a take-over target.

The target was hit by the inevitable Slater Walker Securities with a bid worth no less than 587p a share when the terms were announced. That bid came as a 'tremendous surprise' to Mr Gabriel Harrison, of the Amalgamated Investment and Property Company, who had been in close touch with the Society and was apparently on the point of reaching agreement for his company's participation in the development of the Society's properties.

Slater Walker Securities' plan appears to be to make use of the Society's property potential and then refloat the company once more as a quoted concern.

Changes

That is the situation at the time of writing. But the reason for the vast change in the Society's share market situation firstly, and then in its whole position as a public company, can be traced back to last year's decision to 'modernize' the Society's make-up. The story is uncomplicated.

It can be summarized in the comments made by Mr Hugh Wentworth Pritchard, the chairman, in his statement with the accounts. The rapid development of the Society and the growth of its activities in recent years led to an important reorganization designed to allow expansion plans to continue and advantage to be taken of development opportunities.

Last December three resolutions were passed at an extraordinary general meeting and they reshaped the company. The effect of the passing of the first resolution was to release the restrictions on the transfer of shares which could previously only be held by solicitors and also to remove the limit on the number of shares which could be held by any one person.

The second resolution increased the capital to £2 million by creating 1,450,000 new £1 shares, and the third resulted in the capitalization of £810,000 of reserves for a '3 for 2' scrip issue.

Oyez House

After reviewing these changes, Mr Pritchard comments in his review: 'Since the passing of the resolutions the market price of the Society's shares has increased substantially.' New modern articles of association have been adopted.

But beyond this change from a restricted equity company to a normal quoted company there is the property element to be considered. The revaluation of properties shown in the accounts largely concerns the company's headquarters' building, Oyez House. The chairman's comment with the accounts was to remind shareholders that the board for some time has been considering the best way of using the property. 'As soon as suitable premises can be found in a less expensive part of London', the intention is to transfer some of the Society's business to those premises and 'to make available for letting a much greater part of Oyez House'. There is the kernel of the whole take-over business.

On the operational side, the Society's structure has been changed by forming original trading divisions into subsidiary companies to enable each to develop and expand in its separate field. The Oyez Press, Oyez Stationery and Oyez Services have been formed and others may be formed in the future.

Services

For £95,000 McCorquodale & Co bought a 10 per cent interest on the Oyez Press which comprises the Society's four printing works, and in recent years the Society has carried out an increasing amount of City financial printing for McCorquodale.

The stationery group is the biggest trading entity in the organization both in sales and profits, supplying stationery, books, furniture, accounting machines and office systems. Organization of distribution on a regional basis has proved particularly successful.

Oyez Computer Service provides computerized services for the legal profession and also for other professions and commerce generally. Originally designed to prepare solicitors' accounts, the services now include payroll and time recording.

The Society's Research and Development Department is currently investigating the feasibility of computer storage and retrieval of information and documents, and a scheme entitled 'Quill' (quick information for lawyers) has been presented to representatives of the profession and further presentations organized on seminar lines are planned.

The computer organization and the services provided by the Society's Agency and Costs Department have been formed into the Oyez Services subsidiary. The agency side carried out a wide variety of service functions for solicitors, ranging from company, land charges and other searches to attendance at Government offices.

But what the company does is not of major importance to an asset situation bidder. What the company owns

THE SOLICITORS' LAW STATIONERY SOCIETY, LIMITED
and Subsidiary Companies

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31st December, 1970

		1970 £		1969 £
Turnover (Notes 1 and 2)		5,480,000		4,648,000
Trading Profit (Notes 2 and 3)		620,626		438,098
Deduct:				
Interest payable (Note 5)		34,454		32,383
		586,172		405,715
Deduct:				
Bonus payable to Staff		60,000		40,000
Profit before Taxation		526,172		365,715
Deduct:				
Provision for Taxation (Note 6)		209,031		167,019
Net Profit after Taxation		317,141		198,696
Deduct:				
Dividends paid or proposed (Note 7)		135,000		91,800
Profits retained and included in Revenue Reserves				
The Society	162,405		93,730	
Subsidiaries	19,736		13,166	
		£182,141		£106,896

The notes on page [alongside] of this report form part of this Account.

THE SOLICITORS' LAW STATIONERY SOCIETY, LIMITED
and Subsidiary Companies

NOTES
on Consolidated Profit and Loss Account

	1970 £	1969 £
1 Turnover is the amount receivable for goods and services supplied to customers outside the Group and excluding purchase tax.		

2 Turnover and Contribution to Trading Profit of the Society and its Subsidiary Companies:—

	1970 Turnover £	1970 Profit £	1969 Turnover £	1969 Profit £
The Society	5,142,000	586,832	4,390,000	411,279
Subsidiaries	338,000	33,794	258,000	26,819
	5,480,000	620,626	£4,648,000	£438,098

	1970 £	1969 £
3 Trading Profit has been arrived at after charging the following items:—		
Depreciation	102,989	108,804
Auditors' Remuneration	2,830	2,140
Pension payments:—		
Contributions to Staff Pension Funds	60,355	53,665
Women's Pensions Paid	7,916	8,036
Amounts set aside to Provisions	12,300	14,320
Expenses of capitalisation and related matters	17,000	—
4 Directors' Emoluments		
The emoluments of the Directors were:—		
Directors' Fees	8,000	8,000
Remuneration of Managing Director and Executive Directors (including contributions under pension schemes)	44,923	27,974
Annuity to widow of late Managing Director	800	800
	53,723	£36,774
Particulars of Directors' emoluments (excluding pension contributions):—		
Chairman	1,818	1,704
Highest paid Director (Managing Director)	12,410	7,833
The number of Directors receiving emoluments in the following groups were:—		
up to £2,500	7	7
£2,501 to £5,000	—	—
£5,001 to £7,500	—	3
£7,501 to £10,000	2	1
£10,001 to £12,500	2	—
5 Interest Payable:—		
Interest on Secured Loan (Balance Sheet Note 3)	22,250	22,250
Bank and other Short Term Loan interest	12,204	10,133
	34,454	£32,383
6 Taxation:— Corporation Tax on Trading Profits being as to one-quarter at 42·5 per cent. and three-quarters at 40 per cent.	226,000	175,000
Deduct: Excess provision for Taxation liability in previous year	16,969	7,981
	209,031	£167,019

The close company provisions of the Income and Corporation Taxes Act, 1970, do not apply to the Society or its wholly-owned Subsidiaries.

	1970 £	1969 £
7 Dividends (1970):—		
Interim Dividend (7 per cent.) equivalent to 2·8 per cent. on increased capital (*1969 equivalent—2 per cent.*)	37,800	27,000
Final Dividend of 7·2 per cent. (*1969 equivalent—4·8 per cent.*)	97,200	64,800
	£135,000	£91,800

and is not using to the fullest possible advantage is the thing that matters.

Even so, it is difficult to see 587p a share for The Solicitors' Law Stationery Society on the basis of the latest accounts. There must be an awful lot of potential in Oyez House, Fetter Lane, London EC4.

Growing Trend

ONE of the fastest-growing trends in company reporting is the inclusion of 'the chairman's statement' with the preliminary figures. Rowntree Mackintosh is a recent trend joiner. This is a logical development in the company reporting acceleration process.

The chairman's statement, long years ago, used to be made at the annual meeting, the accounts contained the year's figures and the preliminary statement merely consisted of the final dividend announcement. Then figures came with the final dividend and, later on, the chairman's statement came with the annual report. The trend then moved towards boardroom comment with the preliminary figures and now it is moving towards chairman's statement with the preliminary figures, with the position brought up to date through a short statement at the annual meeting.

The new trend could, in fact, make company meetings more newsworthy than in the recent past. If there is, say, a gap of five weeks or so between the chairman's statement with the preliminary figures and the date of the annual meeting there is scope for the chairman to bring the record up to date.

From a commentator's point of view, comment with figures is undoubtedly a helpful combination. It is the preliminary announcement that makes the City impact.

Norcros

TO meet the demand from investment experts for more detailed information about industrial groups, Norcros Ltd, the industrial holding group, has produced a special brochure. The document also provides information on the management strategy and practices of the Norcros Group and is complementary to, and is intended to be read in conjunction with, the Norcros accounts for 1970.

Under 'The Norcros Corporate Strategy' it is stated that the principal aim of the group is to provide shareholders with the best possible capital and income return over the long term and the overall strategy is to develop an industrially-based group which uses its resources to exploit efficiently its opportunities, in order to grow at a better-than-average rate as measured by its earnings per share.

Norcros is organized into three divisions – printing and packaging, consumer and construction engineering. Printing and packaging offers specialized labelling and marking systems. It provides the group with a third of its turnover and over 50 per cent of its profits. The consumer division operates in storage furniture where there is a consistent high growth. In the construction engineering division the group, among other things, is the world's largest producer of heavy structural precast concrete units for motorway bridges and industrialized buildings.

The main headings under which the information is provided are 'The Norcros Contribution to Group Activities', 'Rewards with Norcros', 'Financial Procedures', and 'The System for Recovery of Central Expenditure'. There are schedules on the assets and sources of finance,

THE SOLICITORS' LAW STATIONERY SOCIETY, LIMITED and Subsidiary Companies

CONSOLIDATED BALANCE SHEET as at 31st December, 1970

	£	1970 £	£	1969 £
Capital (Note 1)				
Shares of £1 each				
Authorised	2,000,000		550,000	
Issued and Fully Paid		1,350,000		540,000
Reserves (Note 2)				
Capital	916,846		111,330	
Revenue	1,005,761	1,922,607	838,312	949,642
Total Capital and Reserves		3,272,607		1,489,642
Loan secured by Mortgage on Freehold Premises (Note 3)		450,000		450,000
Amount set aside against possible future tax (Note 2 (a))		575,025		—
Deferred Tax in respect of Capital Allowances		17,500		16,000
Current Liabilities and Provisions				
Creditors and Accrued Liabilities	819,671		744,410	
Corporation Tax Payable 1st January, 1971	158,031		153,019	
Corporation Tax Payable 1st January, 1972	226,000		175,000	
Provision for Contingencies (Note 4)	60,105		61,186	
Proposed Final Dividend and Staff Bonus	157,200		104,800	
Overdraft at Bank	14,706	1,435,713	87,177	1,325,592
		£5,750,845		£3,281,234

The notes on pages [740] of this Report form part of this Balance Sheet.

THE SOLICITORS' LAW STATIONERY SOCIETY, LIMITED and Subsidiary Companies

	£	1970 £	£	1969 £
Fixed Assets (Note 5)				
Freehold Properties	2,976,500		785,959	
Leasehold Premises	21,375		22,500	
Machinery, Plant and Type	226,348		241,381	
Furniture and Fittings	165,977		156,878	
Motor Vehicles	69,725	3,459,925	62,362	1,269,080
Patent, at cost, less amounts written off		—		14,334
Sinking Fund Policies (Note 3)		130,056		121,697
Current Assets				
Stocks and Work in Progress (Note 6)	583,071		510,168	
Debtors and Payments in Advance	1,571,269		1,360,580	
Cash at Bank and in Hand	6,524	2,160,864	5,375	1,876,123
		£5,750,845		£3,281,234

H. WENTWORTH PRITCHARD
F. J. HOLROYDE
Directors
19th April, 1971.

statistical information on the record of the equity, detail of the analysis of shareholdings, an organization chart, and short biographies of the chairman, executive directors, secretary and chief executives. The final two pages are given over to recent press comment.

United Guarantee

UNITED GUARANTEE (HOLDINGS) LTD is a company that has had its fair share of trial and tribulation, but under the leadership of Mr G. R. F. Roots as chairman and managing director, the company is now doing well. In the 1969–70 accounts Mr Roots records a 'substantial' increase in profits for the third time since becoming chairman in October 1968. Profits last year were £83,469 against £54,655 but dividend held at 5 per cent to conserve cash takes shareholders' minds back to less profitable days. Cash conservation is needed to reduce short-term borrowing originally entered into six years ago.

In the past year the company reduced a loan from Forward Trust by £35,000 and short-term borrowings by £55,000. Disposal or improved use of freehold and leasehold assets is being considered as a means of further reducing outstanding loans. The short-term lease of the company's Notting Hill Gate headquarters having been valued at £160,000, the decision has been taken to move to 'more economic and suitable premises' and there are similar plans being considered for other properties.

United Guarantee's operating subsidiaries are in three main areas: lubricants, fuel oil and heating services; office equipment, and the motor trade, with the first sector providing the bulk of turnover and profit. The motor trade subsidiary operated at a loss last year and is being reorganized. One of the interesting points about United Guarantee is that while its 'headquarters' are in Notting Hill, the registered office is in Dewsbury, Yorkshire. There must have been a reason originally.

Enots

THE directors of Enots Ltd, the Birmingham control equipment and lubricating systems company, have called in a leading firm of consultants 'to install standard costing systems and to report upon the company's basis of stock valuation'. This is reported in a statement with Enot's figures for 26 weeks to January 30th showing sales at £1,591,233 against £1,574,057 but pre-tax profits down from £215,280 to £122,500 because of 'the inevitable increased costs of an organization capable of a far higher turnover'.

At the same time as reporting the engagement of the consultants the directors state that 'as the value of stocks at January 30th, 1971, was similar to that at August 1st, 1970, provisions made at August 1st, 1970, including those against slow-moving items, have been left unchanged as they are considered more than adequate'.

Meanwhile measures have been taken towards restricting production and costs to levels commensurate with the present order intake but 'increased confidence within the engineering industry and sustained encouragement from the Government will be needed to produce markedly improved results in the current half-year'. For 1969–70 the dividend was 15 per cent against an anticipated 20 per cent at the time of the marketing of the company's shares at the beginning of last year. Current year interim dividend is being cut from 8 per cent to 5 per cent.

THE SOLICITORS' LAW STATIONERY SOCIETY, LIMITED

BALANCE SHEET
as at 31st December, 1970

	£	1970 £	£	1969 £
Capital (Note 1)				
Shares of £1 each—				
Authorised	2,000,000		550,000	
Issued and Fully Paid		1,350,000		540,000
Reserves (Note 2)				
Capital	916,846		111,330	
Revenue	972,247	1,889,093	824,534	935,864
Total Capital and Reserves		3,239,093		1,475,864
Loan secured by Mortgage on Freehold Premises (Note 3)		450,000		450,000
Amount set aside against possible future tax (Note 2 (a))		575,025		—
Deferred Tax in respect of Capital Allowances		17,500		16,000
Current Liabilities and Provisions				
Creditors and Accrued Liabilities	741,643		688,408	
Amount due to Subsidiaries	34,754		24,502	
Corporation Tax payable 1st January, 1971	147,023		142,581	
Corporation Tax payable 1st January, 1972	213,000		162,500	
Provision for Contingencies (Note 4)	59,555		60,786	
Proposed Final Dividend and Staff Bonus	154,650		103,085	
Overdraft at Bank	14,706	1,365,331	87,177	1,269,039
		£5,646,949		£3,210,903

The notes on pages [740] of this Report form part of this Balance Sheet.

THE SOLICITORS' LAW STATIONERY SOCIETY, LIMITED

	£	1970 £	£	1969 £
Fixed Assets (Note 5)				
Freehold Properties	2,976,500		785,959	
Leasehold Premises	21,375		22,500	
Machinery, Plant and Type	226,222		241,213	
Furniture and Fittings	164,619		154,582	
Motor Vehicles	59,793	3,448,509	53,587	1,257,841
Patent, at cost, *less* amounts written off		—		14,334
Sinking Fund Policies (Note 3)		130,056		121,697
Subsidiary Companies				
Shares, at cost, *less* Amounts written off		41,605		41,605
Current Assets				
Stocks and Work in Progress (Note 6)	517,705		466,459	
Debtors and Payments in Advance	1,502,876		1,304,167	
Cash at Bank and in Hand	6,198	2,026,779	4,800	1,775,426
		£5,646,949		£3,210,903

H. WENTWORTH PRITCHARD
F. J. HOLROYDE
Directors
19th April, 1971

THE SOLICITORS' LAW STATIONERY SOCIETY, LIMITED
and Subsidiary Companies

NOTES on Balance Sheets as at 31st December, 1970

1 Capital

By Resolutions duly passed at the Extraordinary General Meeting held on 21st December, 1970, the following were effected:

(1) The authorised share capital of the Society was increased to £2,000,000 by the creation of 1,450,000 shares of £1 each;

(2) The sum of £810,000 being part of the amount standing to the credit of Capital Reserve was capitalised and applied in paying up in full, at par, 810,000 shares of £1 each and such shares were distributed credited as fully paid up among the members who were registered at the close of business on 18th December, 1970, in the proportion of three new shares for each two shares then held.

2 Movements of the Reserves in the year ended 31st December, 1970

	GROUP Capital £	GROUP Revenue £	THE SOCIETY Capital £	THE SOCIETY Revenue £
As 31st December, 1969:—				
Capital Reserve	79,378		79,378	
Share Premium Account	31,952		31,952	
General Reserve		838,312		824,534
	111,330	838,312	111,330	824,534
Adjustment of Deferred Tax in respect of Capital Allowances		(1,500)		(1,500)
Net Surplus on Re-valuation of Freehold Properties (Note 2 (a))	1,615,516		1,615,516	
Amount Capitalised (Note 1 (2))	(810,000)		(810,000)	
Expenses incidental to Development of Premises and Removals		(13,192)		(13,192)
Profits retained for the year		182,141		162,405
At 31st December, 1970	£916,846	£1,005,761	£916,846	£972,247

Notes

(a) After making provision for Corporation Tax calculated at the rate of 42·5 per cent. (£575,025) on a sale of the Freehold Properties at the amount of the valuation made by Messrs. Weatherall, Green & Smith at 31st October, 1970 (£2,976,500) the resultant net surplus of £1,615,516 has been credited to Capital Reserve.

(b) The net aggregate amount of the undistributed profits accumulated by the wholly-owned subsidiaries amounted to £33,514 at 31st December, 1970.

3 Mortgage Loan

The Loan secured by Mortgage on Freehold Premises is repayable on 30th June, 1992; interest thereon being payable as to £200,000 at 4½ per cent., £200,000 at 5 per cent., and £50,000 at 6½ per cent per annum. The redemption of this Loan is to be provided by two Sinking Fund Policies in the total sum of £450,000 payable on 27th June, 1992. The Policies are included in the Balance Sheet on the basis of premiums paid; the comparable surrender values are as follows:—

	1970	1969
31st December	£141,884	£131,371

4 Provision for Contingencies

	GROUP £	THE SOCIETY £
At 31st December, 1969:—		
Contingencies	21,376	20,976
Women's Pensions	39,810	39,810
	61,186	60,786
Amounts set aside out of profits	12,300	12,150
	73,486	72,936
Less: Amount utilised	13,381	13,381
At 31st December, 1970	£60,105	£59,555

THE SOLICITORS' LAW STATIONERY SOCIETY, LIMITED
and Subsidiary Companies

NOTES on the Balance Sheets (cont.)

5 Fixed Assets

a) Movements of Fixed Assets in year ended 31st December, 1970:—

	31st December 1969 Book Values £	Increase on Revaluation £	Movements Additions £	Disposals at Book Value £	31st December 1970 De-preciation £	Cost or Valuation £	Aggregate De-preciation £	Book Values £
Group								
Freehold Properties	785,959	2,190,541	—	—	—	2,976,500	—	**2,976,500**
Leasehold Premises	22,500	—	—	—	1,125	22,500	1,125	**21,375**
Machinery and Plant	197,705	—	26,603	1,769	42,312	515,574	335,347	**180,227**
Furniture and Fittings	156,878	—	34,162	1,336	23,727	404,929	238,952	**165,977**
Motor Vehicles	62,362	—	68,052	28,087	32,602	118,330	48,605	**69,725**
Type and Metal	43,676	—	5,668	—	3,223	49,344	3,223	**46,121**
	£1,269,080	£2,190,541	£134,485	£31,192	£102,989	£4,087,177	£627,252	**£3,459,925**
The Society								
Freehold Properties	785,959	2,190,541	—	—	—	2,976,500	—	**2,976,500**
Leasehold Premises	22,500	—	—	—	1,125	22,500	1,125	**21,375**
Machinery and Plant	197,537	—	26,603	1,769	42,270	515,334	335,233	**180,101**
Furniture and Fittings	154,582	—	33,985	498	23,450	400,403	235,784	**164,619**
Motor Vehicles	53,587	—	58,027	23,988	27,833	101,445	41,652	**59,793**
Type and Metal	43,676	—	5,668	—	3,223	49,344	3,223	**46,121**
	£1,257,841	£2,190,541	£124,283	£26,255	£97,901	£4,065,526	£617,017	**£3,448,509**

b) Freehold Properties are included on the basis of a valuation by Messrs. Weatherall, Green & Smith, Chartered Surveyors, at 31st October, 1970; Leasehold Premises (acquired 1969) at cost; Machinery, Plant, Furniture, Fittings and Motor Vehicles are included at cost; Type and Metal are included at book value, being cost less disposals and amounts written off.

c) Certain Leasehold Premises have recently been revalued and disclose a value £262,375 in excess of book value.

d) The recovery of certain losses in regard to structural defects in Oyez House is still being pursued.

e) Credit has been taken for Investment Grants of £1,932 attributable to the year's expenditure and the amount has been deducted from the cost of assets. No restriction of depreciation has been made but the amount has been taken into account in calculating writing down allowance for taxation purposes and it will be taken into account in calculating future years' depreciation.

f) All significant amounts of authorised capital expenditure are provided in the accounts.

6 Stocks at cost or under and Work in Progress at 31st December, 1970, were valued by the Managing Director. The basis of valuation was consistent with that used in previous years.

7 The following companies incorporated in England were wholly-owned subsidiaries of The Solicitors' Law Stationery Society, Limited during the year 1970:—

Typewriters Limited
Electric Typewriters Limited
London Typewriter Company Limited
Tasco Industries (London) Limited

THE SOLICITORS' LAW STATIONERY SOCIETY, LIMITED

REPORT OF THE AUDITORS

In our opinion, the accounts set out on pages [737 to 740] together give, so far as concerns members of the Society, a true and fair view of the state of affairs at 31st December, 1970, and of the profit for the year ended on that date and comply with the Companies Acts 1948 and 1967.

FULLER JENKS BEECROFT & CO.
Chartered Accountants

55–61 Moorgate
London, EC2

19th April, 1971

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60, Kingsway, W.C.2. Tel: 01-405 1781/2
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130, Edgware Road, W.2. Tel: 01-723 5211
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CITY NOTES

THOSE who have fervently forecast a great equity revival by the end of this year and the next boom in 1972 are now having to make do with 'undertone' to provide immediate stock-market strength. Equities are currently in the classic situation of hope having exceeded facts.

The recent ICI and Courtaulds statements were examples. The market tried hard but unavailingly to turn poor figures good. ICI put £24 million on sales in the first quarter of this year but lost £2 million on pre-tax profits.

Courtaulds 1970–71 profits were down from £52·1 million to under £41·7 million, and in the first quarter of this year the fall in earnings has apparently accelerated. But for a few moments the market tried to make something good out of the fact that a £3 million tax reduction gave ICI a £1 million improvement in net earnings and out of the fact that Courtaulds profits were better than the £40 million forecast.

But the attempt failed. Other attempts under similar circumstances are also likely to fail. To make a positive advance the market now needs positive factors.

The market wants a positive government move to inject life into a dead economy. Lower Bank rate, easier hire-purchase conditions or use of the 'regulator' to lower purchase tax and duties across the board is the kind of positive move needed.

* * * *

ONE aspect of the running battle of take-overs in the betting shop industry has probably not escaped the notice of authorities higher than the Take-over Panel. Betting shops have taken the place long since yielded by commercial television as a licence to print money. Bookmakers call betting shops 'money factories'; and it is undoubtedly a fact that bookmakers, for all their popularly-assumed affluence, did not know what money was until betting shops provided the facility of pulling in money in small amounts but on a vast scale.

If the Chancellor of the Exchequer wants a replacement tax for SET, other than VAT, then substantially increased gambling taxes might well be considered – unless he decides to join them rather than beat them, and gets into the lottery business.

When a betting shop chain can forecast doubled profits of £1·2 million in a year of industrial recession, there are some economic priorities wrong somewhere.

* * * *

THERE has been general approval in the City of the Industrial Policy Group's criticism of the Monopolies Commission, in terms of the cost to industry of the Commission's investigations. There is not only the matter of financial cost itself, but of the cost in lost opportunities and lost management effectiveness by having key executives tied up for long periods attending to the Commission's wants.

IPG points on the immunity of the legal monopolies of nationalized industries from Commission investigations are also well made. It is doubtful whether they will be as well taken in government quarters.

* * * *

A SHADE belatedly, it would seem, the board of the Birmingham Small Arms group has called on their auditors to make a special study of the group in its present parlous profit situation. Losses on the motor-cycle side will be heavier than profits on the other engineering sides. This means a group loss after two years of admittedly inadequate profits.

The situation has hardly been improved by BSA's exchange of its machine tool interests for a sizeable equity stake in Alfred Herbert – a company now almost certainly out of the dividend list. But the motor-cycle division loss, even taking into account component, retooling, labour and other problems, has all the indications of the familiar round of first counting sales in terms of hopeful profit, and then not even getting round to achieving the sales. BSA looks a proposition ready for the attention of some of the City's asset situation merchants.

RATES AND PRICES

Closing prices, Tuesday, June 1st, 1971

Tax Reserve Certificates: (26.4.71) Companies 4½%; 2½% surrendered for cash; Personal 4%

Bank Rate

Nov. 9, 1967	6½%	Feb. 27, 1969	8%
Nov. 18, 1967	8%	Mar. 5, 1970	7½%
Mar. 21, 1968	7½%	April 15, 1970	7%
Sept. 19, 1968	7%	April 1, 1971	6%

Finance House Base Rate – June 1st, 1971. 7%

Treasury Bills

Mar. 26	£6·6242%	April 30	£5·6844%
April 2	£5·8293%	May 7	£5·6840%
April 8	£5·7849%	May 14	£5·6517%
April 16	£5·7561%	May 21	£5·6276%
April 23	£5·7081%	May 28	£5·6318%

Money Rates

Day to day	4⅞–6%	*Bank Bills*	
7 days	4¼–6%	2 months	7–7⅛%
Fine Trade Bills		3 months	7–7⅛%
3 months	7½–8%	4 months	7–7⅛%
4 months	7½–8%	6 months	7 1/16–7 3/16%
6 months	7¾–8%		

Foreign Exchanges

New York	2·4174	Frankfurt	8·6100
Montreal	2·4473	Milan	1510·85
Amsterdam	8·6330	Oslo	17·1960
Brussels	120·04	Paris	13·3925
Copenhagen	18·1215	Zürich	9·9225

Gilt-edged

Consols 4%	43¼	Funding 6½% 85–87	80
Consols 2½%	26xd	Savings 3% 65–75	88¼
Conversion 3½%	37⅛	Treasury 9% 1994	94
Conversion 5¼% 1974	96¼	Treasury 6½% 1976	97¾
Conversion 6% 1972	100 1/32	Treasury 3½% 77–80	73½
Funding 3½% 99–04	44¼	Treasury 3½% 79–81	72½
Funding 4% 60–90	97¾	Treasury 5% 86–89	65½
Funding 5¼% 78–80	83	Treasury 5½% 08–12	60¾
Funding 5½% 82–84	79⅝	Treasury 2½%	26½
Funding 5¾% 87–91	69⅞	Victory 4%	96¾
Funding 6% 1993	69⅞	War Loan 3½%	36⅝

The Institute of Cost and Works Accountants

Report of the Council

Extracts from the annual report of the Council of The Institute of Cost and Works Accountants, for the year ended December 31st, 1970, to be submitted at the fifty-second annual general meeting of members to be held at The Connaught Rooms, Great Queen Street, London WC2, on Saturday, June 12th.

Membership

DURING the year there were 723 admissions to membership (compared with 666 in 1969) and, after allowance for resignations, lapsed memberships and deaths, the total membership of the Institute at December 31st, 1970, was 11,436 (10,831) showing a net increase of 605 (565) during the year.

Under the special regulations made after the introduction of the Part V examination, 68 associates were admitted to fellowship, having acquired the necessary seven years' experience of cost and management accountancy in an adequately senior and responsible position. There were 43 transfers to fellowship under the normal regulations (requiring five years' experience).

Rather less than 20 per cent of the Institute's members are fellows. It is considered that among the associate members there must be many who have had the senior practical experience required for fellow membership and the Council urges all those associates who feel that they have the necessary experience, to apply for transfer to the senior grade of Institute membership.

Institute Policy

In May, every member of the Institute received a copy of a 'Statement by the Council on policy if there is no integration of the accountancy profession'. [*The Accountant*, May 21st, 1970.] The Council considered it prudent, while discussing the integration proposals with the other participating bodies, to initiate a study into what the main aspects of Institute policy should be if the proposals were not, in the event, accepted, and the statement was the result of lengthy and detailed discussions, during 1969 and the early part of 1970, in committees and subcommittees and in the Council itself.

When it was known that integration would not take place, the Council decided that the statement should be reissued to all members, and sent to registered students, and that each branch and sub-branch should be asked to arrange a special meeting to discuss the Council's proposals. These meetings were duly held in the closing months of the year. The views expressed, together with those of individual members and students, were submitted, in the first instance, to a special committee set up by the Council to advise on the implementation of the policy decisions.

Although, as explained to members, implementation of policy will necessarily take place over a period of time, the Council took certain immediate decisions, in accordance with the statement, as follows:

Education and Training

Approval was given to the appointment of additional headquarters staff necessary to the implementation of policy in the fields of education and training.

Special examination arrangements for certain graduates were approved, subject to discussion with the universities and polytechnics concerned.

Relationships with other bodies

Special examination arrangements were approved for members of the English, Scottish and Irish Institutes, the ACCA and the IMTA seeking membership of the ICWA. By reason of exemptions granted, members of these bodies will henceforth sit six papers which can, if so desired, be taken at one examination.

Joint Diploma

There was an encouraging growth of interest amongst members of the participating bodies in the Joint Diploma in Management Accounting Services. There were many more inquiries about the scheme than in the previous year and an increase in the number of candidates sitting the Part I examination. At the end of the year there were 355 holders of the Diploma and about 550 candidates at various stages of qualifying for the award.

During the year, the Joint Board announced that with effect from 1971, the regulations for the Part I examination would be changed to allow candidates more flexibility in making their preparations, and colleges more scope in arranging tuition [*The Accountant*, August 20th, 1970]. Whereas in the past there had been no alternative to taking all four papers at one sitting, future candidates would have the option of spreading their attempt at the examination over two sessions at each of which they would take two papers. They would also be able to attempt the first two papers sooner after qualifying than under the existing rule for four papers.

As a result of growing interest in the Diploma scheme among members overseas, the Joint Board approved an

increase in the number of centres abroad at which the Part I examination could be attempted.

Research and technical activities

The Research and Technical Committee, and its many subcommittees, supported by the Technical Department, pursued vigorously the technical interests of the Institute during the year.

Work was continued by the EDP Committee on the booklets *Management Information Systems and the Computer*. With the drafting of Part II, section 2, completed and publication expected in the spring of 1971, a synopsis for Part III was commenced. EDP regional study groups continued their discussions. A successful one-day seminar on data transmission was held in London in February.

A collection of four papers on aspects of corporate planning, a subject of current interest, was published in March. The co-operation between the Institute and the National Council for Quality and Reliability continued and a preliminary report of the working party entitled *Quality Costs* was published in November. Work on an introductory document for non-accountants and career guidance officers, *Introducing Management Accountancy*, was well advanced and publication was expected in 1971.

The joint production by the Institute and the Society for Long Range Planning of *Corporate Planning and the Role of the Management Accountant* continued and publication during 1971 was planned.

A subcommittee of members of the Institute and of the Institute of Personnel Management was set up to study and publish its findings on the financial justification of training, a subject of much interest to Industrial Training Boards. The arrangements to prepare a publication on valued analysis and the accountant were reviewed, and it was agreed that this should be a joint publication by the Institute and the Production Engineering Research Association. At the request of the National Association of Drop Forgers and Stampers, arrangements were made for a two-day seminar on management accountancy in the drop forging industry to be held at Keele University in July 1971.

The Council thanks those who have taken part in technical activities and would welcome help in this important field from all interested members.

Accountants Joint Parliamentary Committee

The Council accepted an invitation to be represented on the Accountants Joint Parliamentary Committee and the President and Vice-Presidents were appointed as representatives. As a member body of the AJPC, the Institute was represented by Mr S. J. Careless, F.C.A., F.C.W.A., J.DIP.M.A., on the Taxation Sub-Committee of the Institute of Chartered Accountants in England and Wales. This subcommittee prepared a memorandum for submission to the Inland Revenue on behalf of AJPC on the subject of taxation anomalies and practical difficulties in the administration of tax law. In the Institute's memoranda on the subjects, copies of which were circulated to all branches in September, use was made of a number of personal contributions submitted by members having special knowledge of taxation matters.

Accounting standards

In response to an invitation from The Institute of Chartered Accountants in England and Wales, the Council appointed Mr H. P. Southall, F.C.A., F.C.W.A., J.DIP.M.A., chairman of the Law and Parliamentary Committee, to represent the Institute on the Accounting Standards Steering Committee, established by the Council of the English Institute in association with the Councils of the Scottish and Irish Institutes.

The Council expressed its full support for the English Institute's 'Statement of Intent on Accounting Standards in the 1970s' [*The Accountant*, December 18th, 1969]. In the statement, issued for the information of directors, accountants, auditors and users of company accounts, is a reminder of some of the basic problems in the preparation of financial statements, and a definition of objectives, i.e., to narrow the areas of difference and variety in accounting practice, and to issue recommendations on principles to be followed '. . . when accounts include significant items which depend substantially on judgments of value, or on the estimated outcome of future events or uncompleted transactions . . .'.

The Law and Parliamentary Committee made a submission to the chartered accountant bodies on the 'exposure draft' of 'Accounting for the results of Associated Companies' [*The Accountant*, June 25th, 1970]. This submission was published in the November issue of *Management Accounting*. It is the intention of the Law and Parliamentary Committee to make submissions from time to time on further exposure drafts issued by the chartered accountant bodies.

Post-qualifying education

Courses and conferences offered by the Institute during 1970 showed an encouraging increase in the numbers attending and in the general interest of the subject-matter. In addition to a spate of activity by branches and area committees, late November saw the first of a programme of post-qualifying education courses organized by the Education Committee. These courses are designed to help the member of the Institute to keep his skills up to date and to familiarize himself with new techniques; the first course, on investment appraisal, was very successful and it is hoped to maintain the standard and to provide a sound educational service for members.

The Education Committee is aware of the great debt owed to those members whose energy and enthusiasm make possible the branch and area conferences, and to those who support the post-qualifying education courses, and looks forward to the continuance of the enthusiasm and the support.

Examinations

The December examination was the last one to be held on the syllabus which had been in force since June 1964 and the revised syllabus of examinations, announced in 1969, is due to come into effect at the June 1971 examination. Specimen questions based on the revised syllabus in the subjects of: business mathematics and statistics, data processing, and management information and quantitative techniques were issued.

With a steady increase in the number of candidates taking the examinations, it has been thought necessary to review the accommodation used. The Examination Committee therefore arranged for Mr B. P. Cashman, B.A., a member of the Institute's staff, to visit a number of centres

in the UK and the Republic of Ireland. From recommendations made arising from the visits, it has been possible in several cases to obtain improved accommodation.

The increased number of candidates has placed on the secretariat responsible for the examinations a heavier work-load. For several years a computer bureau has been used for certain examination procedures and with the transfer of the Institute's records of students from punched cards to a computer it was decided to extend the computer application. This was done in two stages. The first stage dealt with candidates' results, the second with instruction letters to candidates, attendance registers and mark schedules.

A conference of examiners and members of the Committee was held at the Institute in October. Subjects discussed included the techniques of question-setting, assessment of results, training of assistant examiners, examiners' reports and the future development of the examination syllabus. Consideration of modern techniques of examining continued and a number of subcommittees composed of examiners and members of the Examination Committee specializing in given subjects were set up to further the conduct of the examinations.

The Committee agreed to arrange the examination time-table from June 1971 onwards so that it will be possible for members of kindred societies and for graduates to whom appropriate exemptions have been granted, to sit the required papers at one examination if so desired.

Benevolent Fund

The number of contributors to the Institute's Benevolent Fund fell very slightly from 2,361 to 2,350, but the total contributions increased from £2,743 to £2,814 and the amount of income tax recovered in respect of subscriptions made under deeds of covenant was also slightly higher at £778. The Benevolent Fund reserves, invested and on short-term deposit, earned £3,052.

Inquiries were made in all circumstances where it seemed possible that help from the Benevolent Fund would be justifiable and welcome.

Accounts

The deficit of income in relation to expenditure, of £46,842, can be mainly attributed to:

Increased activities of the Institute.

A general increase in staff costs and other expenses, including the effects of inflation.

Increased costs of examinations, including computerization and examination accommodation expenses.

Abnormal expenses for the year which were mainly: expenses in connection with the integration proposals: £14,026: and the initial cost of computerization of records, which is assessed at £12,000.

This trend in the operating costs of the Institute was the basis of a resolution passed at the annual general meeting in June 1970 to increase membership fees with effect from January 1st, 1971, as part of a general movement to increase the Institute's income.

Current Law

Preference and Retainer

THE executor's ancient rights of preference and retainer are abolished in the Administration of Estates Bill which is at present before Parliament. Where, however, the estate proves insufficient to meet creditors' claims in full, the personal representatives are given a measure of protection by an amendment introduced by the House of Lords into clause 10 of the Bill, and subsequently accepted by the Commons.

As amended, the clause provides that a personal representative who, in good faith and at a time when he has no reason to believe the estate to be insolvent, pays the debt of any creditor shall not be liable to account to another creditor of the same degree if it subsequently appears that the estate is insolvent. This protection extends to debts due to the personal representative himself, save where he has been granted letters of administration solely in his capacity as a creditor of the estate.

It will be remembered that it has long been the practice, when granting letters of administration to a creditor of the estate, to exclude the right of retainer by the terms of the administrator's bond. Such bonds are also proposed to be abolished under the Bill.

Hansard, April 23rd, 1971, col. 1502.

Pecuniary Advantage

ANOTHER charge of obtaining pecuniary advantage contrary to section 16 of the Theft Act 1968 by means of a dishonoured cheque, has recently come before the Court of Appeal.

P hired a car and gave two cheques, one in respect of the hire charge and the other as a deposit against accidental damage. Both cheques proved worthless, and he was convicted of obtaining a pecuniary advantage contrary to section 16, by evading a debt by deception in representing that the two cheques were good and valid orders for payment. He appealed against conviction on the grounds, *inter alia*, that the debt still existed and had not been evaded; and that he still owed the money, so that no offence had been committed under the section.

In the course of dismissing the appeal, the presiding judge (Phillimore, L.J.) said that if the defendant's interpretation were accepted no debt could ever be 'evaded'.

[This decision, however, appears to be at variance with another dishonoured cheque case, *R. v. Lockyer*, which was noticed in *The Accountant* of April 29th.]

R. v. Page (115 SJ 385).

SINCE the publication of the earlier 'Courses and Conferences' feature in *The Accountant*, of May 6th, details have been announced of further events to be held during the year and additional information has been released about some of the courses already mentioned. The following notes bring the programme up to date.

July 2nd–4th

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

Week-end School at Cambridge

'INNOVATION – the development and application of new ideas' is the theme of the week-end school for members of The Association of Certified and Corporate Accountants at St John's College, Cambridge, from July 2nd–4th. A varied selection of subjects will cover 'The challenge to accountancy' generally, conventional and contribution accounting, with Mr N. J. Furlong, B.COMM., dealing with the 'challenge', Mr R. Rayman, B.COM., A.C.A., questioning 'Is conventional accounting obsolete?', and Mr Geoffrey Wilson, B.SC., F.I.M.T.A., presenting a case study on contribution accounting.

Inclusive charge for accommodation and meals is £16, and there will be a limited number of rooms available for wives of members attending the school at an inclusive charge of £11. Each member attending the guest night dinner may be accompanied by one guest at a charge of £2·50.

July 20th–22nd

THE INSTITUTE OF MUNICIPAL TREASURERS AND ACCOUNTANTS

Public Administration and Finance

SIR HARRY PAGE, M.A.(ADMIN.), F.I.M.T.A., City Treasurer, Manchester, and a Past-President of The Institute of Municipal Treasurers and Accountants, will be one of the speakers at a course on public administration and finance to be held by The Institute at Churchill College, Cambridge, from July 20th–22nd.

September 13th–18th

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

Summer School at Cambridge

'PRICING and the management accountant' will be the theme of The Institute of Cost and Works Accountants' twenty-second Summer School at St Catharine's College, Cambridge, from September 13th–18th. An introductory address on the general theme will be given by Mr C. A. Herring, B.SC.(ECON.), F.C.W.A., J.DIP.M.A., and papers will be given during the ensuing week by Lord Brown, former chairman of the Glacier Metal Co, on 'Product analysis pricing'; Mr T. E. Heywood, F.C.A., J.DIP.M.A., on 'Contribution pictures'; Professor G. S. C. Wills, B.A., D.M.S., Professor of Marketing, Bradford University, on 'The marketing aspects of pricing', and Mr S. Thomson, F.C.C.A., director of finance, Ford Motor Co, on 'Export pricing'. Group discussions and reports will follow each day's proceedings.

The school is open to all ICWA members and those registered students who are at an advanced stage of their studies.

September 16th

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Flow Charting and Evaluation of Controls

A ONE-DAY course is to be held at Chartered Accountants' Hall, London, on September 16th on the use of flow charting as a practical aid to auditing. The course is intended for audit partners, managers, and senior assistants who have a limited knowledge of the subject and who are interested in the practical use of flow charting and the evaluation of controls for the purpose of identifying relevant areas of weakness.

September 21st–23rd

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Prospectuses and Profit Forecasts

AS ACCOUNTANTS are involved with prospectuses and profit forecasts in a number of capacities – from reporting accountants to executives of merchant banks – a non-residential course on the subject will be held at Chartered Accountants' Hall, London, from September 21st–23rd. The objective is to provide an essentially practical view of 'who does what, and why' in relation to these published figures. The course is being directed by Mr P. G. Corbett, F.C.A., of Peat Marwick Mitchell & Co, and speakers include Mr I. J. Fraser, Director-General of the Panel on Take-overs and Mergers.

September 25th–27th

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Residential Taxation Course at Cambridge

'TAXATION of the Family Company' is the title of one of the current tax practice courses held by The Institute of Chartered Accountants in England and Wales, and is intended for general practitioners (and their senior staffs) who are concerned with the affairs of family businesses. This particular course will be at Churchill College, Cambridge, from September 25th–27th.

September 27th–October 1st

THE INSTITUTE OF MUNICIPAL TREASURERS AND ACCOUNTANTS

Course for Chief Accountants at Eastbourne

ONE of the courses for chief accountants organized by The Institute of Municipal Treasurers and Accountants will be held at the Grand Hotel, Eastbourne, from September 27th–October 1st. Speakers will include Dr A. H. Marshall, C.B.E., B.SC.(ECON.), PH.D., F.I.M.T.A., D.P.A., Deputy Director of the University of Birmingham Institute of Local Government Studies and a Past-President of the Institute, and Mr Maurice Sharples, A.I.M.T.A., who is on secondment to Birmingham University for IMTA research.

September–November

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

Autumn Courses

COURSES to be held by The Institute of Cost and Works Accountants during the autumn will include a week-end school at York University from September 17th–19th, which will be opened by Mr G. Gallon, F.C.A., A.C.W.A., J.P., Chairman of Area 5 Co-ordinating Committee. Speakers will include Mr F. Livesey, lecturer in management sciences, Manchester University, Mr E. R. Izod, A.I.B., and Mr C. Villiers, B.A., A.C.A. 'Pricing policy', will be reviewed and there will be a case study on 'Growth by merger'.

Scottish members will be holding a week-end course at St Andrews from October 1st–3rd on 'Accounting for inflation'. In Manchester on October 9th and in London on November 3rd there will be a conference on 'Human relations in industry'. Speakers and further details of these events will be announced in due course.

September–December

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

Autumn Education Programme

THE Management Information Services Committee of The Association of Certified and Corporate Accountants have just announced their 'Continuing education' autumn programme which covers a wide range of topics, from the appreciation of electronic data processing as an aid to management, to an explanation of financial models and advanced management information techniques.

Repeats of the successful appreciation courses that have been mentioned in these columns from time to time are to be held at the Bull Hotel, Gerrards Cross, Bucks, and the Beach Hotel, Worthing, from October 29th–31st and November 26th–28th, respectively; the cost in each case is £30, including accommodation and meals. Low cost data processing will be the theme of one-day seminars to be held at the Putney College for Further Education, 50–52 Putney Hill, London SW15 on September 25th, November 13th and December 4th, at a cost of £10, including buffet lunch.

The Management Training Centre of International Computers, Hedsor House, Hedsor Park, near Maidenhead, Berks, is to be the venue for an intermediate course on 'Financial models and business management' from September 10th–12th, at a fee of £30 (to include accommodation and meals), and from October 1st–3rd a senior course will be held on 'Advanced management information techniques' at the Excelsior Hotel, London Airport, Bath Road, West Drayton, Middlesex.

October 4th–8th

UEC Study Conference

UNDER the patronage of His Royal Highness, The Duke of Edinburgh, and the presidency of The President of The Institute of Chartered Accountants in England and Wales, the study conference of the Union Européenne des Experts Comptables, Economiques et Financiers will be held in London from October 4th–8th, on 'The development of the accountancy profession and practice in Europe in the 1970s'. As previously announced in *The Accountant*, the official conference reception is to be held at Chartered Accountants' Hall on October 4th, to be followed by luncheons in various Livery Company Halls on October 5th, and a ball at the Royal Lancaster Hotel on October 6th. Countries from which national professional organizations will be taking part are Austria, Belgium, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland and the United Kingdom. Yugoslavia is sending a correspondent to the conference.

English, French and German are the three official languages of the conference and simultaneous translations will be provided at the plenary sessions. Papers to be discussed are 'Recent developments in the profession', 'Auditing in the 1970s – modern techniques', 'Auditing in the 1970s – computers', and 'The provision of management consultancy and other services for clients'. The authors of the papers will be Mr J. F. Shearer, O.B.E., F.C.A., Mr Peter Corbett, F.C.A., Mr C. H. Bailey, A.C.A., and Mr F. C. de Paula, T.D., F.C.A., J.DIP.M.A., and there will be an international reviewing committee to comment on each paper.

October 10th–12th

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Residential Course on Estate Duty at Brighton

A COMPLETE restatement of the rules of estate duty following the major changes in recent years will be made at a residential course entitled 'Estate duty – up to date' to be held at the Hotel Metropole, Brighton, from October 10th–12th. The course is intended for general practitioners and members of their staff who take an interest in taxation without claiming to be tax specialists. A reasonable, but not advanced, general knowledge of the tax system will be assumed in those attending.

October 15th–18th

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Planning and Control Course at Bournemouth

A NEW course will be held by The Institute of Chartered Accountants in England and Wales at the Royal Bath Hotel, Bournemouth, from October 15th–18th, aimed at executives with several years' experience in industry, commerce or management consultancy, who are concerned with planning, control, and the provision of information to management.

Participants will study contemporary approaches to the provision of management information, recent developments in management information and control systems, and the effect and managerial implications of such systems.

The course director is Professor R. I. Tricker, F.C.A., J.DIP.M.A., of the Oxford Centre for Management Studies, and Sir Charles Hardie, C.B.E., F.C.A., is one of a strong team of speakers.

October 20th

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Statistical Sampling in Auditing

A ONE-DAY course on 'Statistical sampling and auditing' will be held at Chartered Accountants' Hall on October 20th. Bearing in mind that the application of statistical sampling techniques to auditing and accounting is not easy but that, nevertheless, such techniques have considerable value if they are properly applied in appropriate circumstances, some of the simpler techniques will be examined in detail during the course; especially random selection and discovery sampling, as this is particularly appropriate to transaction testing.

The course is designed for audit partners and their staffs, and will also be of interest to internal auditors.

October 25th–29th

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Computer Appreciation Course at Folkestone

THE GRAND HOTEL, Folkestone, is the venue for a residential course on computer appreciation from October 25th–29th. This well-established course of The Institute of Chartered Accountants in England and Wales is an introduction to the computer and its function for those with little or no previous experience in the field. It will be mounted by a working party under the chairmanship of Mr L. Fuller, F.C.A., of Arthur Andersen & Co, supported by speakers with experience in each aspect of the subject. The objectives are to make members aware of the work involved in the selection, installation and operation of a computer system, and of the associated costs and benefits.

November 9th–10th

THE INSTITUTE OF MUNICIPAL TREASURERS AND ACCOUNTANTS

Project Appraisal Course at Nottingham

PRINCIPLES, practice and presentation of a project appraisal and examples of work done in local authorities and industry – but mainly in local authorities – will all be covered in a project appraisal course to be held at the Post House Hotel, Nottingham, from November 9th–10th, by The Institute of Municipal Treasurers and Accountants. Amongst the speakers will be Mr W. C. Evans, F.C.A., F.I.M.T.A., Chief Finance Officer, Redditch New Town Development Corporation, and a member of the Institute's Council, and Mr Eric Wood, M.A., A.I.M.T.A., Assistant Treasurer of the Greater London Council.

November 9th–12th

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Auditing of Computer Systems Course at Brighton

A RESIDENTIAL course on the auditing of computer systems will be held by The Institute of Chartered Accountants in England and Wales from November 9th–12th at the Bedford Hotel, Brighton, with Mr I. D. Watson, C.A., of Peat Marwick Mitchell & Co, as the course director.

The use of computers in business has grown to a point where the ability to understand the control of EDP systems and apply appropriate audit reviews is a 'must' for most internal and external auditors. This course offers the opportunity to those members having a basic knowledge of computers to obtain an understanding of the practical approach to data processing problems and so be able to undertake the audit of most computer systems other than those of unusual complexity.

November 19th–21st

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Executorship and Trusteeship Course at Brighton

PROBLEMS which arise in executorship and trusteeship practice will be dealt with at a residential course of The Institute of Chartered Accountants in England and Wales from November 19th–21st at the Hotel Metropole, Brighton. The course will be under the direction of Mr F. Alan Bevis, M.A., LL.B., F.C.A., and opportunities will be given for detailed study of set problems in groups.

It is expected that the course will be of special interest to members in small- and medium-sized practices, as well as those who feel that their knowledge of the subject needs to be refreshed as a result of recent legislation.

November 30th–December 3rd

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Current Developments in Audit Practice

THE residential course on current developments in audit practice in July (see Courses and Conferences of May 6th) will be repeated by The Institute of Chartered Accountants in England and Wales at the Grand Hotel, Eastbourne, from November 30th–December 3rd. This is considered to be a very important course as both large and small professional firms are finding it necessary to adapt audit techniques to cope with substantial salary increases, shortage of staff, and changes in clients' organization and methods.

STUDENT ROUNDABOUT

London's Troubles

STEPHEN PARRY, B.A., A.C.A., Chairman of the London CASS, has for a long time been worried over the complete apathy of three-quarters of London's members. Only some 3,000 out of a total 10,000 membership participate in the Society's affairs, he declares in his annual report. The pattern is, of

course, common – other societies have the problem, but not on the same scale.

As a method of stimulating more involvement, Stephen Parry suggests members should pay a part of their subscription out of their own pocket, thus tempting them to devote a little more of their time to Society activities.

It is an open secret that there have been unexpected eddies and turbulences within the Society during the year. Despite this, the committee has worked hard and with ambition, resulting in a programme crammed with events of topical interest. No wonder Stephen Parry expresses worry at the poor reaction displayed by far too many members. Perhaps what is needed is less diversification of subject matter or, better still, a survey to find out just what members want.

London's relations with ACASS have been important. No one can question the many facilities which the Society has provided for it. Not unexpectedly, the report touches upon the matter of the Society's request (put to the ACASS conference in March) for a change in the basis of the income which the Society pays over to ACASS. It will be an important issue for both the Society and ACASS if the motion to be proposed by Stuart McDonald 'that the Society continues to pay a *per capita* levy to ACASS . . .' is approved at next week's annual general meeting of the Society.

Under the title 'Services to Members', the report states that the Society's two-day and three-day courses were all well attended. Particularly successful were those on auditing, computer auditing and small audits. West End evening lectures, started on a trial basis last year on such topics as taxation and revenue procedures, were an outstanding success and are to be held again this year. A major feature in the sphere of education was the introduction of oral tuition at 43 London Wall designed to assist members with their correspondence courses.

The report also records the success of the Cambridge residential course in April when Professor Bernard B. Goodman, M.B.A., C.P.A., of the University of Hartford, USA, was present as an observer and in an informal talk gave members much to reflect upon in comparing American accounting education tuition with that in the UK. (An interview with Professor Goodman appeared in 'Roundabout' on May 13th).

SOME FACTS ABOUT THE EDUCATIONAL COUNCIL

THE Education Council to be held next week from June 11th to 12th, at Chartered Accountants' Hall, is the first major forum in which Institute members and students are to discuss the problem of education; for this reason it is important that the facts concerning the council should be known.

Background to the council

The Education Committee of The Institute of Chartered Accountants in England and Wales approved, at a meeting held on April 22nd, the formation of an Institute ACASS Joint Steering Committee ('Roundabout', April 29th). This committee consists of three members of the Institute's Education Committee, one of whom, Mr M. G. Lickiss, B.SC. (ECON.), F.C.A., is its chairman, and three members of ACASS – Tony Cross, B.A., A.C.A., David Gilks and Stephen Parry, B.A., A.C.A.

The object of the committee is to co-ordinate and guide a feasibility study in regard to facilities for professional education, which has been conducted by the ACASS Education Council.

Structure of the council

The majority of district societies have set up joint working parties with their local students' societies. The purpose of these working parties is to study, report on, and suggest improvements to, local facilities for technical training for the Institute's examinations as well as considering every existing and possible future form of educational facility, including district society sponsored schools of account.

Delegates to next week's council will be drawn, primarily, from such working parties – two delegates from each party. In addition, observers have been invited from other interested sectors – public, private and the Department of Education and Science. They will be invited to take an active part in the council proceedings.

Purpose of the council

The purpose of the council is:

(1) to provide a forum in which delegates from local joint working parties can be appraised of the arguments put forward at ACASS conferences on professional education;

(2) to formulate guide-lines for a revised system of technical education for the profession and define the objectives of that education;

(3) to determine a time-table which will govern the completion of the work of local working parties;

(4) in connection with purposes (2) and (3) above, to debate present educational facilities, and the possibilities for their improvement, in the light of experience gained to date by local working parties.

The Council is to consider schools of account as just one of a range of possible solutions to any educational deficiencies that become apparent.

PROVINCIAL AGMs

HIS year's annual general meeting the Birmingham CASS is due to ke place on July 21st in the Library, ountain Court, Steelhouse Lane, at 30 p.m. The meeting will be pre-ded by light refreshments and the mmittee expresses the hope that as any members as possible will attend.

The committee of the Leicestershire d Northamptonshire CASS request at all principals encourage their ticled clerks to attend the Society's nual general meeting on June 3th at which it is hoped there will be good attendance. The meeting will e at the Saracen's Head, Leicester, mmencing at 6 p.m. The conclusion the formal business over, there will e a break for light refreshments llowed, it is hoped, by an inter-ce quiz.

ETTERS TO ROUNDABOUT

Schools of Account *are* Feasible

rom the Chairman of the ACASS Education Board

IR, – I write to correct the erroneous npressions given by Peter Pennington egh's article in 'Student Roundabout' May 20th).

If the facts were as he suggested, I ould agree with his conclusions. I rongly suspect that the article was ritten some time ago, for nowhere oes he outline the current situation. I will reply to his basic points:

ACASS suggest we put all our eggs one basket'

chools of account have always been eated as a possible solution or a art of a solution; the Education ouncil due to take place on June 1th–12th will consider every possi-ility.

There is a blueprint for a school of ccount'

here was a very tentative document sed for discussion purposes only) t the council in January, but we are till establishing whether there is a eed for schools of account, not hiring rchitects.

The broader content has not been xamined'

he council of June will have rep-esentatives of *all* educational sectors attendance.

As an example of typical education oard consultation, I attended the Independent Tutors in Accountancy AGM on May 15th, when we dis-cussed schools of account for several hours.

'Schools of account are intended to provide academic education'

Peter Pennington Legh suggests we study the Ormerod Report. This I closely examined in March and, as he points out, it 'provides for technical education in sponsored faculties with the academic side being covered by graduate entry'. This is *exactly* how schools of account would operate, adding technical training to academic education.

To summarize, I would say that his 'criticisms' are in fact, not only the strongest possible argument for hold-ing the Education Council on June 11–12th but, in some cases, for schools of account.

Yours faithfully,

BILL DORMAN,
Chairman,
ACASS EDUCATION BOARD.

Northampton.

The ACASS Levy Controversy

SIR, – In connection with recent 'riots' over the ACASS levy between various members of the London CASS, in which it has been suggested that this levy be changed from a *per capita* basis to a voting basis, may we put on record a viewpoint from two of the smaller societies?

We jointly represent 230 students; our total income is £346. On the present budget our ACASS levy will be £80; if this is changed to a delegate basis it will be £360; if on a voting basis, £252. Does London want to force every small society out of ACASS?

One of the main functions of ACASS is to present a united front of students in order to deal with national student problems for the benefit of every student member.

At the moment, ACASS is the centre of revised thinking on the education of articled clerks throughout the country; it is stimulating thought on transferability of articles and on student membership. Each of these projects is of benefit to each individual articled clerk, and not, as London insists, for the benefit of student societies.

It is obvious that if the London resolution succeeds, we – and other similar societies of ACASS – will be unable to survive financially as mem-bers, and consequently the force that ACASS now has as being representa-tive of every articled clerk will diminish.

As London is representative of 9,600 students (out of a total of 17,000) it can, therefore, be argued that the work of ACASS is primarily for their benefit. Consequently, Lon-don's main grievance that it contributes over half of ACASS's income, and yet has less than half of the voting rights may be justified. May we suggest, however, that London does not seek to remedy this by:

(i) altering the structure on which the levy is based (i.e., *per capita*) as this would detri-mentally affect the force of ACASS as a united body; or

(ii) by adjusting the voting rights to their advantage, as we do not feel that ACASS should be governed by one society, how-large their membership; but

(iii) considers the benefits it derives from membership of ACASS and ensures that all budgeted expenditure of ACASS is justi-fied.

(It should be noted at this point that the majority of projects presented at the March council meeting, to be undertaken by the ACASS Executive during the ensuing year, were sup-ported by the London delegates.)

It has been mentioned that the ACASS levy, and the improper re-charging of ACASS's secretarial ex-penses have contributed heavily to London's 1970 five-figure deficit. As to the first implication, the proposed levy for 1971 would cost London £3,300 and even allowing for the £1,600 reduction in levy, which would be the benefit to London if their resolution succeeded, their deficit would still be substantial. As to the second implication, we do not feel that London should blame ACASS for what appears to be an internal blunder.

Finally we would like every other society to consider very carefully all the implications of London's resolu-tion before reaching their own con-clusions.

Yours faithfully,

MARGARET FRAY,
Chairman,
SOUTHAMPTON CASS.

GEOFF BROWN,
Secretary,
PORTSMOUTH CASS.

Notes and Notices

PROFESSIONAL NOTICES

COOPER BROTHERS & CO and COOPERS & LYBRAND announce that Mr ANTHONY ERNEST GRANT, B.A., has been admitted to partnership in Brunei.

HIBBERT, SIER, WOODS & CO, Chartered Accountants, of Finsbury Court, Finsbury Pavement, London EC2 announce that Messrs C. M. ANSTEAD, F.C.A., and N. N. PERRY, A.C.A., retired from the partnership on May 31st, 1971, in order to take up full-time commercial appointments. Messrs A. L. BURGESS, F.C.A., and D. G. F. KAY, B.COM., A.C.A., are continuing the practice under the existing style and have been joined in partnership on June 1st, 1971, by Messrs C. D. PREST, F.C.A., and H. S. BAYLEY, B.A., F.C.A., both of whom were senior members of the staff.

KEENS, SHAY, KEENS & CO, announce that as from June 1st, 1971, their London practice will be conducted from 295 Regent Street, London W1R 8SS.

KINGSFORD, GARLANT & CO and SIMMONS, SLOWMAN & CO, Chartered Accountants, announce that Mr P. J. TOOLE, F.C.A., left the firms on March 31st, 1971, to take up an appointment with the Greater London Council.

APPOINTMENTS

Mr A. G. B. Burney, O.B.E., B.A., F.C.A., has been appointed a member of the National Ports Council following the re-organization of the Council.

Mr John M. Butler, A.I.M.T.A., A.M.B.I.M., has been appointed assistant borough treasurer of Greenwich Borough Council, London.

Mr John M. Clissold, F.C.A., has been appointed a regional adviser to the board of Samuel Montagu & Co.

Mr John P. Kloer, A.C.A., has become chief accountant of Raychem.

Mr M. H. Langdon, F.C.A., has been appointed to the board of Stevenson, Jordan & Harrison.

Mr Ian Wilson Macdonald, M.A., D.LITT, C.A., has been elected a director of United Biscuits (Holdings).

Mr W. S. McCann, C.A., managing director of Hiram Walker & Sons (Scotland) Ltd, and subsidiaries and Robert Macnish & Co Ltd will also become chairman of these companies on June 1st, 1971.

Mr John Oswald, C.A., has been appointed managing director of A. C. Penman, a member of the Scotcros group.

Mr J. R. Sinclair, C.A., a director of Williamson Manufacturing Co, has joined the board of the parent company – Negretti & Zambra.

Mr Maurice E. Warren, A.A.C.C.A., has been appointed a director of Crosfields & Calthrop.

Mr Anthony Watkins, M.A., A.C.W.A., has become manager of the newly formed marketing services division of Philips Electrologica.

Mr Gerald Beale, F.C.A., financial controller of Pirelli, has joined the main board of the company.

Mr G. Beale.

Mr R. Marston.

Mr R. Marston, F.C.A., has been appointed secretary of Ascot Gas Water Heaters.

Mr Martin Wesson, A.C.A., secretary of the Robert Stigwood Group, has been appointed to the board of the company.

FACULTY OF AUDITORS

Mr R. F. W. Walwin, M.B.E., F.A., A.B.A.A., is the new President of the Faculty in succession to Mr H. A. McDouall-Pearce, F.A., F.C.I.S., A.I.A.C., who had held office since 1967. Mr Walwin intends to take an early opportunity to resume merger negotiations between the Faculty and the British Association of Accountants and Auditors, and will also seek talks with other accountancy bodies.

NORTHERN SOCIETY'S NEW PRESIDENT

Mr C. H. W. Sansom, F.C.A., senior partner in Gilchrist, Tash, Wilson & Sansom, Chartered Accountants, of Middlesbrough, and also of Sansom, Bell & Co, of Darlington, has been elected President of The Northern

Society of Chartered Accountants for 1971–72. Educated at Darlington Queen Elizabeth Grammar School, and Haileybury and Imperial Services College, he served articles with his present firm and was admitted to membership of The Institute of Chartered Accountants in England and Wales in 1939.

During the Second World War Mr Sansom was an officer in the Secretarial Branch of the Royal Naval Voluntary Reserve, and three years after demobilization was instrumental in forming the North Yorkshire and South Durham Branch of Chartered Accountants, which at that time was attached to the Leeds, Bradford and District Society. Following the integration of the Institute with the Society of Incorporated Accountants, the branch became affiliated to the Northern Society of Chartered Accountants and was subsequently renamed the Tees-side Society of Chartered Accountants; Mr Sansom was Chairman of this Society for two different years.

An accomplished cricketer and rugby player in former years, Mr Sansom is a trustee and past president of the Darlington Rugby Union Football Club. Married with a son and two daughters, his son is also a chartered accountant.

Other officers elected for 1971–72 are:

Vice-President: Mr C. Collett, F.C.A.
Treasurer: Mr S. J. P. Bevan, A.C.A.
Secretary: Mr I. R. Turner, A.C.A., Alliance House, Hood Street, Newcastle upon Tyne NE1 6LB.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The monthly meetings for Bible reading and prayer to be held at 1 p.m. on Monday, June 7th, will be devoted to the subject of 'Standing fast' as considered in Philippians, chapter 4, verses 1 and 11 to 13. The City meeting will be at the Church of St Peter-upon-Cornhill, London EC3 (entrance in Cornhill, near Gracechurch Street) and will be led by Mr John Risbridger. Coffee and sandwiches will be available (charge 25p) during the meeting.

The parallel meeting in the West End will take place at the same time at the Vicarage of Christ Church, 21 Down Street, London W1 (near Green Park Station).

SOUTHERN SOCIETY'S NEW PRESIDENT

Mr B. A. Apps, F.C.A., has been elected President of the Southern Society of Chartered Accountants for 1971–72.

After qualifying as an incorporated accountant in 1938, Mr Apps spent

a number of years in professional offices in the City of London and elsewhere before entering commerce in 1948. He subsequently returned to practice and is now a sole practitioner in Hampshire.

From 1955–56, Mr Apps was President of the Incorporated Accountants, South of England District Society and later became treasurer of the Hants and Dorset Branch of the South Eastern Society until 1965, when he was elected treasurer of the newly formed Southern Society. He did not relinquish office until April of last year when he was elected Vice-President.

Other officers elected are:
Vice-President: Mr C. H. Mead, F.C.A.
Treasurer: Mr L. A. Jarvis, F.C.A.
Secretary: Mr R. G. Norris, F.C.A., 37 Winchester Street, Basingstoke, Hants.

GRIMSBY AND NORTH LINCS CHARTERED ACCOUNTANTS

Members of local branches of The Institute of Cost and Works Accountants and The Association of Certified and Corporate Accountants contributed to an enjoyable evening meeting held by the Grimsby and North Lincolnshire Society of Chartered Accountants held at the County Hotel, Grimsby.

The excellent support for this event is mentioned in the eighteenth annual report of the Society, presented with the accounts for the year ended December 31st, 1970, at the annual meeting on May 17th at the Humber Royal Hotel, Grimsby. Two further evening meetings were held during the year in addition to a visit to the Rothwell Plant Breeders organization, and there was an excellent attendance at a one-day seminar when Mr M. Flesch spoke on 'Estate duty planning', and Mr T. A. Hamilton Baynes, O.B.E., M.A., F.C.A., on 'Valuations of unquoted securities'. Throughout the year there were luncheon meetings on a wide range of topics.

Financially, the accounts showed an improvement in the shape of a surplus on the annual dinner thereby reducing the grant from the parent society (Hull, East Yorkshire and Lincolnshire). The membership of the branch now numbers 171 but the committee would be pleased to hear from any Institute members who reside in the area and who are not being notified of the meetings.

Principal officers of the branch elected for 1971–72 are:
President: Mr H. D. Mitchell, F.C.A.
Deputy President: Mr J. A. Buckle, F.C.A.
Secretary: Mr B. N. Moore, A.C.A.
Treasurer: Mr D. P. Everitt, F.C.A.

CHARTERED ACCOUNTANTS' BENEVOLENT ASSOCIATION

At a recent meeting of the Management Committee Mr R. L. Eke, F.C.A., was unanimously re-elected as President of the Association for the ensuing year. Eleven members were present.

Ten new applications for assistance were considered. Among those assisted was a member with disseminated sclerosis, a widow of a member who was given a nomination for a place in one of the homes of Crossways Trust for the elderly and another widow who was given a nomination for a flat in a housing scheme of the Hanover Housing Association. Assistance was refused in one case.

Thirty-eight applications for the renewal of grants were considered and granted. Changes in the circumstances of nine beneficiaries were reported and appropriate action was taken.

In each of three of the cases dealt with at the meeting the amount granted over the next twelve months was £1,000 or more.

'TAX-FREE'

Solution to the crossword 'Tax-Free', compiled by Kenneth Trickett, F.C.A., which appeared in last week's issue.

Note. – The letters T, A and X were omitted from the answers.

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WEST SURREY ICWA DINNER

The West Surrey Branch of The Institute of Cost and Works Accountants held their annual dinner on May 19th at the Burford Bridge Hotel, Box Hill, near Dorking. The guests included Councillor and Mrs R. N. W. Gillingham, Woking UDC; Mr L. W. Millett, D.F.C., Assistant Secretary of the Institute, and Mrs Millett; Mr A. J. P. Rowe, F.C.A., Chairman, South West London Chartered Accountants' Group, and Mrs Rowe; Mr C. F. Theadom, F.C.I.S., Kingston Group of Chartered Secretaries, and a number of directors and senior executives from local manufacturing companies.

The dinner was preceded by the Branch AGM, when it was announced that plans are being made for the setting up of a local students' society. It is hoped that a series of week-end lectures on examination subjects will be arranged at both Kingston upon Thames and Guildford.

Mr J. V. Hudson, F.C.W.A., formerly of the Liverpool Branch, was elected to the Committee.

In Parliament

Post-war Credits

Mr COOPER asked the Chancellor of the Exchequer what is the total sum of post-war credits now outstanding.

Mr PATRICK JENKIN: The amount of post-war credits outstanding at April 30th, 1971, is estimated to be £192 million, including £47½ million accrued interest.

Mr LEONARD asked the Chancellor of the Exchequer if he will take steps to arrange for the immediate repayment of post-war credits.

Mr PATRICK JENKIN: I have no such proposals in mind at present.

Hansard, May 17th, 1971. Written answers, col. 226.

House Purchase: Tax Relief

Mr GEORGE CUNNINGHAM asked the Chancellor of the Exchequer what is his estimate of the benefit to the revenue of the imposition of an upper limit on the tax relief available in respect of interest paid on loans for house purchase, if that limit were set at £500 or 10 per cent of income, whichever is the greater.

Mr PATRICK JENKIN: Information is not available in a form from which a reliable estimate can be made but the yield would be small.

Hansard, May 17th, 1971. Written answers, col. 226.

Income Tax and Social Security

Sir B. RHYS WILLIAMS asked the Chancellor of the Exchequer if he will now publish a White Paper on the integration of the income tax and social security systems.

Mr MAURICE MACMILLAN: No, Sir.

Sir B. RHYS WILLIAMS: Is my hon. friend aware that a number of hon. Members on both sides are disappointed by the apparently slow progress of the Government's studies of negative income tax and similar systems of integrated taxation and social security? Is it not particularly foolish when we are in process of enacting the National Insurance Bill, which is to introduce the earnings-related contribution to national insurance, to try to pretend that this is not just a social security tax?

Mr MACMILLAN: I think that my hon. friend will agree that it would be even more foolish if we were to act prematurely. We are conducting a close examination of these complicated questions and the results so far show that a good deal of work must still be done, particularly on the whole question of child poverty. It would be wrong to attempt to act or even to publish a Green or White Paper until we are a little further advanced in our studies.

Hansard, May 18th, 1971. Oral answers, col. 1056.

Pinnock Finance Company

Mr ARTHUR LEWIS asked the Attorney-General why, in view of the report on the Pinnock Finance Company crash and the prima facie evidence submitted therein of alleged fraud and various other illegalities, the Director of Public Prosecutions has decided to take no action; and whether he will make a statement.

The ATTORNEY-GENERAL: The report by the Board of Trade Inspectors was received by the Director of Public Prosecutions in May 1970. After discussion with me, the Director decided in June 1970, that, having regard to the nature of the available evidence, police inquiries would not be warranted at this stage.

Hansard, May 24th, 1971. Oral answers, col. 25.

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THE ACCOUNTANT

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AUDITING DEBACLE

POINTS OF DETAIL

PROFESSIONAL DISCIPLINE

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Established 1874

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Vol. 164. No. 5034

June 10th, 1971

The Recognized Weekly Journal for the Accountancy Profession throughout the World

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Auditing Debacle

IN Australia the *Pacific Acceptance* case, which forms the subject of a commissioned article elsewhere in this issue, is a classic both in its enormity and in its simplicity. The Australian affiliate of a well-known international firm of chartered accountants incurred a heavy liability for damages and costs, principally in respect of bad debts arising out of the irregular operations of a director of a client company.

The central character in this case appears, in fact, to have taken no particular pains to conceal his activities, which involved for the most part purported 'mortgages' of real estate which either proved ineffective for want of registration or which in many cases were never executed at all. These activities were facilitated, first, by a somewhat lax office organization within the client company, and secondly, by the fact that the detailed work of the audit was performed by junior staff who were not closely supervised, and whose procedures had been adapted from an audit programme developed originally for a different class of business.

It is not our intention in this case – any more than in certain other *causes célèbres* in the past – to take advantage of hindsight in order to pillory individuals. The lessons of *Pacific* should, however, afford a powerful antidote to the complacency of any who may be tempted to argue that 'it couldn't happen here'. The case, in fact, presents several features of remarkable similarity to such classics of professional history as the *London & General Bank* and *Leeds Estate & Building Company* cases of a century ago.

It must seem obvious enough, in retrospect, that the mention of a solicitor's name does not in itself preclude the auditor from calling for the production of the executed copy of a mortgage deed, or for the documents of title to real estate which, in accordance with normal practice, would be in the mortgagee's possession; whilst the auditor cannot advise upon technical points of draftsmanship, he should at least be able to satisfy himself that the documents exist and appear to have been validly executed. It is no less obvious, in retrospect, that the existence of a carbon copy on a file does not guarantee the existence, much less the execution, of the original, and that the existence of a statutory register of titles presupposes a right of search. Yet all these points, and others, were overlooked in the course of the Pacific audit.

The case has also highlighted the delicate relationship which exists when the accounts of holding and subsidiary companies are audited by different firms. By an unfortunate combination of circumstances, if not indeed by an almost incredible oversight,

the Pacific consolidation proceeded on the basis of draft accounts which at that date bore no auditor's report; after the consolidation had been completed and had received apparently a clean report, the audit report on the subsidiary's accounts came belatedly to hand, and proved to be heavily qualified.

Had closer attention been paid to the unsatisfactory features of Pacific's office organization; had the audit clerks been more closely supervised or more precisely instructed; or had there been a closer liaison between the two firms of auditors involved, the Pacific auditors and the profession both in Australia and throughout the world would have been spared a great deal of expense and embarrassment. The case affords a useful lesson that, whilst audit procedures may change in the course of a century, human nature does not; the strength of the chain remains that of its weakest link.

Points of Detail

THE exemption clauses of some insurance policies have in the past been notorious for their complexity and for the ease with which – at least in the view of some unfortunate policy-holders – they made it possible for the company to escape its presumed obligations. It was doubtless with such clauses in mind that 'Fougasse', of *Punch*, created between the wars the man who wanted to take out an insurance policy; unfortunately, he also wanted to include all the exceptions that were in the policy, to cover all the risks that were not but which might be covered under the policy, to unlimit all the limitations which were not expressed but which might be implied under the policy . . . until he was finally carted off by two attendants in a plain van, frantically protesting his wish to insure against being unable to take out the policy at all. That man might well have been employed as a draftsman of Finance Bills.

One of the points developed in correspondence between Mr W. E. Parker, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales in 1967–68 and the then Chancellor of the Exchequer (*The Accountant*, May 11th, 1968) was that changes in fiscal legislation should be considered in detail by a select committee in advance of Parliamentary debate. It was perhaps too much to expect that official opinion would at once accept so fundamental an inroad on the tradition of Budget secrecy, and inevitably the alleged peril of 'forestalling' bulked large in Mr Roy Jenkins's mind.

Like the 'Fougasse' character, the Inland Revenue is a firm believer in stopping all loopholes, likely or not; and, again like that character, the practical outcome may be unexpected. The application according to its literal terms of a subsection devised to anticipate some actual or notional abuse may well work hardship in an otherwise wholly innocent transaction; nor should a properly-planned fiscal system operate on the basis of surprise.

The accountants' memorandum on the Finance Bill 1971 is the fruit of careful deliberation by some quite highly-paid time, and this could have been put to better use than in dotting i's and crossing t's for the Inland Revenue.

Professional Discipline

GIVEN the continuing failure of Mr William Ross Wright to come forward with an explanation of the fate of £1 million of Pinnock depositors' money, it is perhaps inevitable that much public criticism should have centred upon those accountants and auditors who were in any way associated with this lamentable episode. Neither the Attorney-General nor the Director of Public Prosecutions has so far shown any marked eagerness to initiate criminal proceedings on the strength of the inspectors' report, and the case has provoked some comment in the lay press on the presumed disciplinary shortcomings of the accountancy profession.

The professional councils are, in fact, well aware of their responsibility as custodians of the profession's good name, which from time to time involves them in the unpleasant necessity of taking firm and salutary action. The outcome of these proceedings is noted in their annual reports, and (in the case of The Institute of Chartered Accountants in England and Wales) also in the columns of the journal. The nature of this jurisdiction is perhaps little understood outside the profession, so that heads are not always seen to roll with sufficient promptitude or frequency to make life easy for the popular journalist.

Unlike the older-established professions of medicine and the law, accountancy does not have the benefit of a statutory closed shop, and its disciplinary machinery is thus entirely domestic. The accountancy bodies have, for instance, no power to compel the attendance of witnesses, to enforce the production of documents or to administer an oath. It appears unlikely, in the present climate of popular opinion, that Parliament

could be prevailed upon to relax these limitations, and whilst they exist it is plainly undesirable for the professional councils to seem in any way to trespass upon the prerogative of the courts.

There is thus a well-established convention that the accountancy bodies will not invoke their own sanctions whilst legal proceedings are pending, or where a legal remedy exists if the complainant cares to use it. The reasons for this are twofold. First, any accountant appearing as a defendant in legal proceedings (whether civil or criminal) would be seriously embarrassed if it was shown that he had been disciplined by his professional society on a complaint arising out of the same facts.

Secondly, there are unfortunately a few people about who are reluctant for one reason or another to appear in a court of law, and who are prone to use the threat of a specious complaint to the appropriate professional body as a means of bringing pressure to bear upon an accountant at small risk to themselves.

The report of the Pinnock inspectors has, we are sure, received the careful attention of every recognized body of accountants. The appropriate councils are well aware that certain of their members, in the inspectors' view at least, have cut a sorry figure and that the reputation of the profession as a whole has suffered in consequence; but that reputation will not be restored by hasty recourse to kangaroo justice.

CURRENT AFFAIRS

New IMTA President

MR JAMES L. SALT, F.I.M.T.A., City Treasurer of Liverpool, has been elected President of The Institute of Municipal Treasurers and Accountants in succession to Mr Francis Stephenson, F.I.M.T.A. The investiture ceremony takes place on Friday at the Institute's annual conference being held this week at Torquay. The new President was admitted to membership of the IMTA in 1938, and has been a member of its Council since 1964; last year he served as Vice-President.

A Midlander by birth, Mr Salt began his local authority career at Wolverhampton in 1929, moving to Walsall in 1937. Following his war service, in which he was commissioned in the Royal Regiment of Artillery, he returned to local government service at Newcastle upon Tyne. He became Deputy Treasurer of Blackpool in 1950 and Deputy Treasurer of Liverpool in 1958, before succeeding to his present appointment in 1962. He became a fellow of the Institute in the same year.

Mr Salt's leisure interests – to the extent that the presidential office will allow – include gardening and – in startling contrast to the conventional image of his profession – jazz and fast cars.

He is a former executive member of the IMTA North-Western Students' Society and a past chairman of the Associates' section of the North-Western branch. For the past 13 years he has been an examiner and assessor for the Institute's examinations, and he is a well-known contributor to *Local Government Finance* – the Institute's monthly journal. He is also chairman of the Institute's Practice Committee.

The Institute's new Vice-President is Mr Wilfred Bowdell, B.SC.(ECON.), F.I.M.T.A., of Westminster. Mr A. L. Imrie, C.B.E., C.A., F.I.M.T.A., of Edinburgh, becomes Honorary Treasurer, following the retirement of Mr G. B. Esslemont, C.B.E., M.A. LL.B., B.COM., C.A., F.I.M.T.A.

Municipal Treasurers' Conference

SPEAKING at this week's annual conference of The Institute of Municipal Treasurers and Accountants at Torquay, the retiring President, Mr F. Stephenson, F.I.M.T.A., referred to the proposals for the reform of local government. These, he said, offered a sad future for most of our county boroughs, which 'will find themselves left with housing and refuse collection as their main functions'. The county councils, enlarging both their functions and their areas, would become the new all-purpose authorities, so that 'many officers of existing county boroughs may, after a period of transitional stress, find themselves with unaccustomed leisure to sit back and study the principles of management in the ironical situation of having considerably less left to manage'.

In the course of its annual report for 1970, the IMTA Council is critical of the policy of agricultural derating, which may reduce the rateable value of local authorities in the UK by up to £1 million in 1971. Financial aid to agriculture, it is urged, should not be borne by the ratepayer. The Council also favours capital values in preference to the present rental basis for rating

domestic property; with the growth in owner-occupation, the rental basis is not understood by some ratepayers, and the adoption of capital values, though leading to certain shifts of incidence, should do much to restore public confidence in the rating system.

During the conference, it was announced that the Sir Harry Page Merit Award had been made to Dr A. Hedley Marshall, C.B.E., B.SC.(ECON.), F.I.M.T.A., a Past-President of the Institute, for his work as chairman of the committee on the planning, execution, and financial control of highway maintenance work, whose report was published towards the end of 1970. This Award is given annually for 'the introduction of some new device or policy, for the substantial improvement of some existing practice or for a critical analysis of established procedure' in local or public service finance.

Dr Marshall was also one of five honorary fellows elected during 1970, in consideration of long and outstanding service to the Institute, and to public finance and administration. The others were Mr G. B. Esslemont, C.B.E., M.A., LL.B., B.COM., C.A., F.I.M.T.A.; Mr W. S. Hardacre, F.I.M.T.A. (both Past-Presidents); Mr G. C. Jones, O.B.E., F.I.M.T.A. (joint managing director, Long, Till & Colvin Ltd); and Mr E. Sinnott, F.I.M.T.A. (chairman of the South Eastern Electricity Board).

A full report of the conference proceedings will appear next week.

New ICA Council Member

MR STANLEY PERCIVAL WILKINS, F.C.A., a partner in Deloitte & Co, as announced in the report of last week's Council meeting elsewhere in this issue, has been co-opted to the Council of The Institute of Chartered Accountants in England and Wales.

Aged 54, Mr Wilkins was articled to Mr Alec E. H. Benard, F.C.A. Following his admission to membership of the Institute in 1954, he joined the London office of Haskins & Sells, the American associates of Deloittes, transferring to the present firm when that office was merged with Deloittes in 1952. He became a partner two years later.

Mr Wilkins has been a co-opted member of several Institute committees, including the Parliamentary and Law Committee (1964–65); the Technical Committee (1956 to date; since 1970 as its Vice-Chairman); and of the Accounting Standards Steering Committee since 1970. He was also a member of the Technical Advisory Committee in 1963–64, and since 1969 has been a representative of the English Institute on the Accountants' International Study Group.

Pinnock Auditors Criticized

THE profession evidently has not heard the last of the affairs of Pinnock Finance Co which formed the subject of a leading article in *The Accountant* of May 13th. Answering criticisms from both sides of the House recently that the Board of Trade had taken no effective action in the matter over the years 1961–67, Mr Nicholas Ridley (Under-Secretary of State for Trade and Industry) said:

> 'We must continue to rely upon auditors to satisfy themselves as to the value of assets shown in company balance sheets. Officials cannot conceivably take over the work of auditors in this or, for that matter, any other similar field. . . . The company had an able auditor who resigned rather than give a qualified report, a negligent auditor, and an auditor with insufficient experience to compete properly with the work he took on.
>
> 'These events raise important questions. The first is whether the first auditor was right to resign without alerting anyone other than his successors. No doubt, on the legal advice he received, he acted correctly. But wider questions of his responsibility to the depositors arise. Had he informed the Department of his suspicions, it is likely that action would have been taken back in 1962. The second point is that the second auditor was, to quote the report, "grossly negligent", and the third auditor was "out of his depth". One asks how they came to be allowed to practise. Again, a hint from either of those auditors would have alerted the Department.
>
> 'The Government are not satisfied on either of these matters, and I intend to discuss them with the professional bodies concerned in the near future, with a view to possible action.'

Mr Ridley also discounted rumours that the Government was aware of Mr William Ross Wright's whereabouts, but was not prepared to face the expense and work involved in fetching him back to face a prosecution. There was no knowledge, he said, of Mr Wright's whereabouts, and the suggestion that the Government knew where Mr Wright was but was not prepared to do anything about it was untrue.

Graduates in Accountancy

THE year 1970 was not a particularly difficult one for an Oxford graduate to find a job, according to the report of the University's appointments committee for that year. Rather ominously, it adds that '1971 may tell a different story'.

Whilst research or further academic study has claimed the attention of more than a quarter of those taking a first degree at Oxford over the past five years, it is of particular interest to note that the proportion of Oxford graduates seeking articles with firms of accountants has doubled over the same period. There were 65 such candidates (3·3 per cent of the total) in 1970, compared with 38 (1·8 per cent) in 1966. This is a small but significant fraction of the 2,000 or so young men and women who graduate from Oxford each year, and it is at least satisfactory to note that none of the other classifications tabulated has shown a comparable rate of increase.

On the national level, the total number of graduates seeking accountancy articles increased from 355 in 1966 to 627 in 1969. This latter figure is 1·6 per cent of the total of nearly 40,000 holders of a first degree whose employment destination was known.

Research Project

WITH the assistance of a research grant from the Houblon-Norman Fund, Mr David Lyall, M.B.A., C.A., A.T.I.I., Lecturer in the Department of Accountancy and Finance at Heriot-Watt University, proposes to inquire further into the impact of management consultants on company profitability. It is intended to analyse the basic approach, techniques, and objectives of the management consultant and review his effect upon the profitability of companies. Mr Lyall will be working under the general direction of Professor J. R. Small.

It is also proposed to analyse, so far as possible, the individual position of a number of companies in various industries prior to, during, and for a period after the consultancy in an attempt to isolate the consultant's contribution from other factors such as improved management, alteration in economic conditions, etc., which may have contributed to variation in profitability. An attempt will also be made to measure the post-consulting trend in profits and to evaluate the duration of any profit improvement.

Consultants and accountants, especially those in organizations which have recently employed, or are currently employing consultants, and who are in a position to assist Mr Lyall in his research, are invited to contact him at the Department of Accountancy and Finance, Heriot-Watt University, Mountbatten Building, The Grassmarket, Edinburgh.

THIS IS MY LIFE

The Other Side of the Coin

by An Industrious Accountant

GOING down the corridor the other day I met one of our new shorthand-typists, a pretty youngster but with a worried look. She hesitated for a moment as we passed, then stopped, obviously on the spur of the moment. Could she please have next Wednesday afternoon off, she blurted out; she'd been picked for her tennis club's big match – the first team, too, so it was absolutely special!

I explained benevolently that she'd have to ask her supervisor who had the authority to deal with such matters, and she departed with an expression of disdain for such old-fogey regulations.

Her glance sparked off the sudden memory of another long past incident (indeed, I chronicled it over ten years ago) which always gives me a pang of conscience to recollect.

I had only been in my present job for a few days when a nervous girl made a similar request, explaining that her supervisor had sent her in to me direct. She herself seemed to have no idea of her holiday entitlement, so I had a private chat with the senior girl, a stern-eyed retainer who made it clear that time-off for sport was unheard of. My predecessor, a martinet of the old school, had accepted nothing less than a broken leg or a family bereavement as justification.

Being accustomed to a more liberal atmosphere and knowing how readily our salesmen were given comparable concessions (even before Women's Lib made the headlines) I reversed course on the spot. Individual consideration on a reasonable basis, I decreed, remembering that prize-winning staff were good publicity and that happy workers meant good morale. I was rather smugly conscious of cutting a good figure, I remember.

The supervisor must have hared off hotfoot to spread the story of the iconoclast, because not long after one of the directors strolled into my room. He didn't mention the event in both our minds, but dwelt rather pointedly on my predecessor's virtues – like Ney telling a raw recruit about Napoleon. We both knew he was making no impression on a self-satisfied listener.

In retrospect, I blush for my blunders. I hadn't at any stage established a proper understanding with the supervisor, who was directly under my jurisdiction, and had made no effort to strengthen her authority. Instead, I had probably both bewildered and embarrassed the well-meaning lady by the dogmatic way I handled the innovation.

Nor had I really helped the applicant as I should have done by explaining to her why she was lucky as a responsible and meritorious employee. In fact, I gathered later that she became overbearing and was promptly and painfully cut down to size by her colleagues.

Worst of all, I didn't appreciate the careful forbearance shown by the director. He could easily have cut me down to size in turn or ticked me off for changing procedures without consultation. He must have felt tempted to intervene, perhaps to countermand my decision. But he let me down lightly, and I was too cocky to sense the underlying problems.

In extenuation, it should be added that Prinny was away riotously celebrating the anniversary of Jutland and he had never thought of explaining current staff regulations to the inexperienced newcomer. Still, I should have known better.

The Institute of Chartered Accountants in England and Wales

Presidential Elections

Installation Speeches

As announced in *The Accountant* last week and in the proceedings of the Council on other pages in this issue, the new President of The Institute of Chartered Accountants in England and Wales is Mr A. H. Walton, F.C.A. The Deputy President is Mr D. S. Morpeth, T.D., B.COM., F.C.A., and the Vice-President is Mr E. K. Wright, M.A., F.C.A.

Election of President

Proposing the election of Mr Walton, Sir Henry Benson said:

I propose that Arthur Halsall Walton should be President for the ensuing year. The method of election of our office bearers is such that by the time they reach the presidential chair their virtues and capabilities have been well publicized. I do not propose, therefore, to repeat what was published about Arthur Walton in the professional press last year and the previous year when he was elected as Deputy President and Vice-President respectively.

I say quite simply that he is a member in practice in Manchester, he has served with distinction on the Council for twelve years, has been a member of nine or ten of its committees and has acted as chairman of some of them; he has a special and continuing interest in professional education which is a subject which is very dear to the hearts of the members of this Institute at this time. As I said last year the qualities which we seek in a President are, above everything else, integrity, and I can say without risk of contradiction that Arthur Walton has the trust, respect and confidence of everybody in this chamber. It is on that basis, Mr President, that I propose his election for the ensuing year and I ask Mr Newman to second it.

Mr E. J. Newman seconded the proposition which was carried unanimously and with applause.

Mr A. H. Walton: My thanks are due to you, Sir Henry and Mr Newman, for the words with which you have moved your proposition, and to you fellow members of the Council, for accepting it and electing me to our highest office with its privileges and responsibilities. I pray that I may be equal to both. Without pre-empting any bigger and better tribute but none more sincere, may I thank our immediate Past President for his steadfast conduct of and steadying influence on our affairs over the past year and also acknowledge many a personal consideration. (*Hear, hear.*)

We are all in debt to those who over the years have been responsible for establishing the present position of leadership of this Institute and the reputation of its members. It will be my constant intention in the year ahead to work to sustain both those positions, because neither will endure without continuing effort, and neither must be taken for granted.

To meet the demands of society for assistance over an ever-widening range of activities will require collectively, the help and co-operation of all sections of our membership, and individually, ever higher standards of training and education of students and post-qualification development for members. In quite a different field, we must be ready to play an even greater part, if our country should go into the Common Market, in the affairs of UEC.

Mr Croxton-Smith investing Mr Walton with the presidential badge

Finally, I particularly wish to gain a greater measure of involvement from those in commerce and industry in meeting the challenges before us. I shall seek to initiate steps to encourage and secure this. I am grateful for the past, I have confidence in the present and I have faith in our future. (*Applause.*)

Election of Deputy President

Mr Stanley Dixon: Mr President – and what pleasure it gives me to be the first to address you in this way. You have my very best wishes, Mr President, for a successful and happy year, and Mrs Walton, too.

It would seem that the survival rate of past presidents is so low that we advance in seniority roughly in step with the officers. Last year I had the privilege of proposing the Vice-President; this year I have the honour of proposing the Deputy President and I think it will come to you as no surprise that they are one and the same person. (*Laughter.*)

When the office of Deputy President was created some few years ago, it was thought that the duties of the Vice-President would be very light indeed. His year of office was

to be a sort of preliminary canter and he was involved only in communications and I think attending dinners of branches.

When Mr Morpeth accepted the office of Vice-President twelve months ago he could have had no premonition that within a month he would find himself chairman of the Special Committee for development policy and a member of the Accounting Standards Steering Committee. These have been his major preoccupations during the last few months – assignments of the utmost importance for the future reputation of this Institute. In addition he has carried out, as I know from my personal experience of his visit to Birmingham, his communications duties most excellently. These additional duties have brought Mr Morpeth an immense amount of extra work and responsibility. The efficient and conscientious way in which he has performed them is known to you all. I need no other argument to persuade you that he is a most suitable candidate for election to the office of Deputy President. I have great pleasure, therefore, in proposing Mr Morpeth as Deputy President of this Institute, and I ask Mr Stanley Middleton to second the proposal.

The proposition was seconded by Mr S. Middleton, and was then carried unanimously.

Mr D. S. Morpeth: Mr President, members of the Council, I am very conscious of the honour that you have done me in electing me Deputy President for the ensuing year and also of the duties and responsibilities which are involved. Mr Dixon has been very kind in his remarks about me and I thank him very much indeed, and Mr Middleton for seconding them. I shall do my best to live up to what is expected of me in my year and support the President in his year of office.

I have enjoyed my year as Vice-President under Mr Croxton-Smith, and I would add my congratulations to him for the excellent way he has lead us through a difficult year. Finally, may I congratulate you, Mr President, on your election, and wish you every success for the ensuing year. (*Applause.*)

Election of Vice-President

Sir Ronald Leach: Mr President, although outranked by Mr Stanley Dixon, I am still going to make an early tribute and congratulate you, and say very sincerely that I am terribly glad that we have someone like yourself to guide our destinies in the next difficult year.

While it is a privilege and pleasure to propose the election of a President and a Deputy President, the proposals are unlikely to be novel and the two officers who have battled so valiantly in their present offices are certain to be elected with acclamation. When, however, we come to the election of the new Vice-President, this is quite a different matter and one can be assured of the close attention of members of Council.

What I am going to propose, however, will not come as a surprise or novelty to anyone. When one considers the qualifications and merits of my candidate you will see that his choice is irresistible.

My candidate was born in 1909 and admitted as an associate member in 1937. He was elected to the London District Society Committee in 1950 and later served as Chairman. In April 1959 he was elected to Council and has given 12 years of valuable service. He has been or is a member of no less that 12 committees; he has been a prominent figure at summer courses and a valuable contributor to our Practice Administration booklets. He is a man of high principles and firm views which he has never shirked from expressing frankly and fairly. Furthermore, he has a gift of eloquent expression which, with due respect to other members of the Council, is in my opinion quite exceptional and unique.

His devotion to the affairs of the Institute have been unqualified. He has never refused any of the many tasks we have put upon him. I believe he would be a wholly

Mr Walton invests (*left*) Mr Morpeth, Deputy President, and (*right*) Mr Wright, Vice-President, with their badges of office.

acceptable representative of this Institute as Vice-President and a tower of strength to the two senior officers. I propose: 'That Mr Kenneth Wright be elected Vice-President for the ensuing year', and I ask Mr Taylor to second the proposal.

Mr C. Taylor: Mr President, I can think of no name more acceptable to this high office than that of Mr Kenneth Wright and it is with the warmest pleasure that I second the proposition.

The proposition was carried unanimously with acclamation.

Mr K. Wright: President, first, my congratulations to you and to the Deputy President, and my hopes that you will have a successful and rewarding year, and that you will enjoy good health: this final wish is sincere but not entirely free from self-interest! I add my tribute to the steadfast service of the Past President in guiding us through this winter of discontent.

I am most grateful to Sir Ronald, and to Mr Taylor, for the very generous way in which they have put my name before you; over-generous I fear and at times barely stopping on this side of idolatry. But it tickles the vanity to have such a preview of one's obituary! (*Laughter.*)

My thanks, too, to the Council for supporting my nomination, and through them, to the members of the Institute who they represent. Whatever our democratic processes, I never forget that we are responsible to our constituents.

I am not the first – and shall not be the last – who on election to this office feels a sense of pride, clouded by fears of inadequacy. I can only promise to do my best. My feelings were put into words in 1912 by Mr Robert Montgomery on being made an office holder of the American Association. He said:

'I am here today because I love the profession. I have found among the accountants the highest types of men – men with whom I have been glad to ally my fortunes and friendship. To remain in the accounting profession does not mean a fortune. I would rather stand with you men and go to the meetings and meet you than I would leave it for any consideration of which I could think. And I hope, if it is true that progress cannot arise from contentment, that there will still be enough discontent with our standards, with our ethics, to press forward to do more than we have ever done before. In such disagreements if we work together we shall continue to be friends, and we shall make this profession something of which the country itself can be proud.'

I feel those words are apt today. Thank you.

Vote of thanks to outgoing President

Mr S. Kitchen: Mr President, may I first congratulate you, and Mr Morpeth and Mr Wright, upon your elections and express the hope that you will have a highly successful and rewarding year. In you, Mr President, and in the Vice-President, I recognize two Presidents of district societies from that great vintage year 1957–58, and I am very proud to have been associated with you as far back as those days. In the Deputy President I do, of course, recognize one of my own partners. (*Laughter.*)

It is my pleasant duty to propose a vote of thanks to our retiring President, Mr Croxton-Smith. To be President of this Institute is a great honour but it is also a very arduous and demanding task. It must be particularly so for a provincial President who has made no secret of the fact that he is a small practitioner. It must be more so by having had to face, in addition to his normal burden, the collapse of integration, a financial crisis, and a continuing criticism of our profession from without and within. In handling these problems and in presiding at the annual and special meetings – not to mention our own Council Meetings – Mr Croxton-Smith has shown a capacity for determined leadership, coupled with an energy which would be exacting even for someone much younger than he is.

Another trial, which he can claim to be the first President to have experienced is to have slept in the 'ivory towers of Moorgate Place' – convenient and economic no doubt, but hardly a palace of luxury!

This year has seen much in our Institute on the credit side, and I venture to think that in this year of office the foundations of 'A Better Tomorrow' have been firmly laid. I sense the development of genuine goodwill throughout the country as a whole much of which has been engendered by the President's personal efforts in extending the lines of communication during his extensive travels. We now wish him a well earned rest with our thanks for his untiring efforts.

We are also conscious of the support which he has received from Mrs Croxton-Smith and from his partners to all of whom we are particularly grateful. It is with the greatest possible pleasure that I propose a hearty vote of thanks be accorded to 'Crocky' for his Presidential services and I will call upon Mr Frith to second this proposal.

There solution was seconded by Mr J. Frith and carried with acclamation.

Mr C. Croxton-Smith: Mr President, my congratulations and best wishes. And to you, Deputy and Vice-Presidents.

Thank you, Stanley Kitchen and John Frith, for the kind things you have said. This has not been an easy year for this Institute or for the accountancy profession; but if, at times, it has seemed frustrating, it has also been intensely interesting: the accountancy profession is facing similar problems in other countries – in America and in Canada, where I had the opportunity of being present at their annual meetings and of taking part in some of their discussions – in Australia and elsewhere.

Other professions face similar problems: these fall broadly under two heads – one organizational – should the various bodies making up a profession merge or not? The engineers – or some of them – secretaries, auctioneers and surveyors have said 'yes'; our members have said 'no' – and the various bodies in the accountancy profession are, not unnaturally, feeling their way whilst maintaining co-operation in matters of joint concern.

The second head under which our problems fall concerns all professions – we are becoming exposed to public inquiry. The Monopolies Commission and investors – institutional and personal – inquire into our skills and practices. This is calling for a great volume of work from our Technical Committees and Secretariat, and particularly from the Accounting Standards Steering Committee which has incurred some criticism from some of our members. There are those who seem to think that a voluntary policing system of commercial conduct is not a possibility, whether by the City Take-over Panel or by individual professions. I am certain we have got to try, and that the great majority of our members would expect us to do so, rather than that we should just sit back and await possible legislation.

My final word, Mr President, must be to the staff of this Institute. The matters to which I have referred, together with developments in the educational sphere, are making great demands upon our committees, the Council itself, and the Institute staff. During my three years in office I

have met many of them, and seen quite a number of them at work. They form a team, which in itself makes their work greatly more effective, and they are second to none amongst professional Institute staffs. I would add my personal and very grateful thanks to the senior members of the Secretariat, particularly to the Secretary and Deputy Secretary, and to all members of the Council for their courtesy and support. (*Applause.*)

The Accounting World

Topics of Professional Interest from Other Countries

SWEDEN

Mergers within Swedish Industry

THE first survey to be made of industrial mergers in Sweden shows that almost half of all Swedish companies employing between 200 and 500 people have changed ownership since the end of the Second World War. At least 80 per cent of these mergers were of the horizontal type – that is, where a company is taken over by another in the same sector – whereas acquisitions by investment companies accounted for only 4 per cent of the total.

The survey, undertaken for the Swedish Institute for Economic and Social Research by economist Bengt Ryden, shows that it is the larger firms which are more likely to become the target of a merger situation. The highest number of merged companies occurred in the brewery and dairy industries, although pulp and paper, chemicals, steel and metalworking were also extensively represented. By contrast, only 6 per cent of all textile companies and 4 per cent of clothing companies were involved in mergers.

Approximately two-thirds of the companies taken over showed poor profitability compared with average, and about 40 per cent had both low earning power and insufficient liquidity. However, companies taken over in vertical mergers, by investment companies and in diversification deals, tended to show good earning power.

NEW ZEALAND

Provision for Retirement

THERE are only four ways of insuring an income in retirement: 'by a discriminating choice of forebears and relatives; by an infallible instinct for fast horses and jackpots; by a similar infallible instinct for real estate, shares, antiques and works of art; or by gradually accumulating a fund out of hard-earned and mostly tax-paid income'. Mr H. G. West, F.C.A.(N.Z.), a Past-President of the New Zealand Society of Accountants, suggests that most of the population – accountants or others – are destined to follow the last of these routes, and that the prospect of any other salvation is slight.

The source of this quotation is *Practice Value – Providing for Retirement*, the second in the New Zealand Society's series of 'Public Practice' booklets. Mr West shows himself sympathetic to the traditional concept of saleable goodwill – or, to use his own terminology, 'practice value' – on the transfer of a practice or the admission of a new partner. Referring to Mr Kenneth Wright's 1967 paper 'Professional goodwill and partnership annuities', he does not accept that payment for practice value is an anachronism and not in the best interests of the profession.

'One of the rewards of effort' says Mr West, 'is surely the building up of something valuable that can be transferred to others. The successor is spared the initial years of working for an inadequate reward. He gets a reasonable income, and more, immediately. Why should he not pay for the "and more"?'

Provision for retirement, according to Mr West, should be the individual's responsibility, and schemes which seek to place this responsibility upon the firm are in his opinion illusory. The booklet concludes with some practical suggestions for dispositions to facilitate the prompt payment of a deceased or retiring partner's share, for the personal problems of preparing for retirement, and the advantages of professional incorporation.

SOUTH AFRICA

Transvaal Society's Annual Report

FOR the second year in succession, the income and expenditure account of the Transvaal Society of Chartered Accountants shows a deficit of more than R6,000, and the balance on accumulated fund has declined from R187,484 at January 1st, 1969, to R174,225 at December 31st, 1970. Faced with the prospect of further deficits in 1971 and 1972, the Council has recommended 'with reluctance' that subscriptions should be increased with effect from January 1st, 1972, to R25 per annum for full members, and R5 per annum for absentee and non-resident members.

The strength of the Transvaal Society at December 31st, 1970, was 3,289 members and 1,598 articled clerks. Amongst the members whose deaths are regretfully noted in the report is the late A. Isaacs, C.A.(S.A.), who was admitted to membership in 1908 and who (as recorded in *The Accountant* for February 25th) was granted the privilege of honorary life membership shortly before his death.

The President of the Society is Mr H. V. Hefer, B.COM., C.A.(S.A.), of Johannesburg. Mr W. H. Kruger, C.A.(S.A.), of Pretoria, and Mr R. V. Lobban, C.A.(S.A.), of Johannesburg, are Vice-Presidents.

AUSTRALIA

Australian Society's New President

MR D. P. WILLIAMS, F.A.S.A., of Adelaide, has been elected President of the Australian Society of Accountants in succession to Mr L. P. Crockett, F.A.S.A.

Mr Williams joined the Adelaide retail firm of John Martin & Co Ltd as secretary in March 1950. In 1959 he was appointed to the board, and became joint managing director in February 1971. He is also Vice-President of the South Australian Division of the Heart Foundation of Australia, and Deputy Chairman of the St John Council for South Australia.

Mr G. W. Bottrill, F.A.S.A., and Mr R. R. Grey, F.A.S.A., both of Sydney, have been elected Vice-Presidents of the Society. The Honorary Treasurer is Mr R. O. Thiele, B.COM., F.A.S.A.

Taxation and Depreciation

THE Council of the Australian Institute has issued two recommendations on accounting principles, 'Treatment of income tax in the accounts of companies' and 'Depreciation, depletion and amortization of fixed assets'. Both of these are in substitution for earlier statements on the same topics which were originally issued in 1946 and have now been withdrawn.

The new issues bear a close resemblance to recommended 'best practice' in the United Kingdom. Having regard to the fundamental 'matching' concept of revenue and expense, the Australian Institute regards it as unarguable that, from a shareholder's viewpoint, income tax must be met out of the revenue of the financial period before determination of the net profit available for appropriation. It is consequently recommended that this tax should be matched with the related components of net revenue according to the periods in which they are dealt with for accounting purposes.

In cases where capital allowances for tax purposes – as, for instance, by the operation of initial or investment allowances – exceed by a material amount the depreciation charged in the accounts, it is recommended that their effect should be excluded from the usual provision from income tax and a 'provision for deferred income tax' account established. This provision for deferred income tax should be used to absorb the tax payable in subsequent periods when the relevant timing differences are reversed.

In connection with fixed assets, it is recommended that diminution in value over their working lives should be included in operating costs by means of systematic charges for depreciation, depletion or amortization. These charges should be calculated on bases appropriate to each class of assets and to the circumstances, and should be applied consistently in each accounting period. In the absence of special circumstances, the Institute regards the straight-line method as the most suitable basis of depreciation for general application. Any amount set aside to cover increases in the cost of replacing fixed assets should be treated as an appropriation of profits and as a reserve in the balance sheet.

The Australian Uniform Companies Acts 1961 include provisions in respect of disclosure of information relating to fixed assets similar to those in Schedule VIII of the United Kingdom Companies Act 1948. The amending Companies Bills introduced into the New South Wales and Victoria state legislatures in 1970 would also require disclosure of any profit arising from the sale or revaluation of assets other than current assets, with a statement whether it has been brought into account in determining the net profit or loss of the company or of its subsidiaries.

Source and Application of Funds

THE importance of a statement of source and application of funds as part of a company's annual submission to its shareholders is coming to be recognized in Australia as in other commercially-advanced countries, and a technical bulletin issued earlier this year by The Australian Institute of Chartered Accountants recommends such a presentation 'to facilitate a clearer understanding of the operations of the period'. Such statements apparently do not comprise a part of the statutory information upon which auditors are required to report, although the Institute considers that directors should give the auditor an opportunity to satisfy himself as to the truth and fairness of the funds statement.

It is recommended that the form of presentation should be influenced by the circumstances of each particular case, and should be restricted to a limited number of items consistent with clear presentation of the significant informations. The arrangement should be carefully considered so as to emphasize important highlights rather than as a repetition of a standard presentation. It is to be expected that in many cases the most appropriate arrangement will explain and emphasize investments in non-current assets, and variations in liquidity and in working capital.

The treatment of extraordinary items, says the Institute, 'will vary according to the nature of the particular item'. It is suggested, for example, that profits on the sale of investments should be added to the book value so as to disclose the gross proceeds as a source of funds, and that gains due to the devaluation of a foreign currency should be adjusted if necessary against the profit from operations. Prior period adjustments incorporated in the profit and loss account should be ignored in the preparation of a funds statement, and dealt with by way of note only.

CANADA

Chartered Accountants as Company Presidents

MR ROY FREDERICK BENNETT, C.A., has been appointed president of the Ford Motor Company of Canada, at the age of 42, making him the youngest president in the company's history. He has been, at various times, director of corporate planning, general marketing manager, and vice-president of finance. He is also vice-president of the Chamber of Commerce executive council at Oakville, Ontario, an active member of the Canadian Manufacturers' Association, and is a member of the editorial board of *The Canadian Chartered Accountant*.

Mr Eric Hamilton, B.COM., C.A., for many years a member of the executive of Canadian Industries Ltd, Montreal, was recently appointed president of that company.

MANAGEMENT INFORMATION

Introducing Corporate Planning

CORPORATE or long-term planning has been much talked about during the last few years, and not without reason, since it lies at the core of all business planning. The process of setting a corporate objective, of establishing goals and a strategy, is the starting point for all rational decision-making in any type of organization, and success or failure in this process will largely determine its future.

As with other management techniques there is the danger that top management will install a system for corporate planning and then think that the task is complete. Nothing is further from the truth. As with any other technique it is an aid to management and not a substitute for management. It is a process of formalizing and appraising managerial judgements about the firm's future that will enable those judgements to be made more effectively and more precisely.

Any management that is contemplating installing a formal long range planning system should first consider what factors will be essential for its success, since failure of the system for any reason is likely to have adverse repercussions on other planning processes in the organization. This is all the more essential in view of the close involvement of senior management. Their attitudes will have a decisive influence upon the effectiveness with which it is implemented, and upon the attitudes of other managerial staff. Some of the problems in setting up a system are discussed by David E. Hussey in an article entitled 'Planning for Ovaltine: Introducing Corporate Planning at A. Wander Ltd' which appears in the April issue of *Long Range Planning*.

Fundamentals for success

As indicated above, one of the prime requirements for the successful implementation of corporate planning is the involvement and the full backing of the top management. Given that some of the goals that will be set include such factors as what is an acceptable level of profit over the planning period, what sources of funds will be used to finance growth or what will be the dividend policy these are judgements that can only be made at that level of management.

Corporate planning is likely, however, to change the style of management through involving other levels of management more closely in the planning process, and through allowing managers to operate more independently within the framework of the plans established. Unless senior management is prepared for this change and is wholeheartedly behind it, then its introduction is likely to meet with problems.

The objective of the company is centred around profit and profitability. In fact, in most cases the introduction of corporate planning is the result of a need to improve profitability. Again, management should clarify its attitudes to profit before embarking upon corporate planning, or there may well be conflicts arising in defining the goals to be reached.

The third criterion is that there must be a basis of planning skills within the business. Whether they are brought in specifically for the job or are developed in existing managers is not important. What is important is that planning is not attempted with unskilled staff, since failure may not only seriously damage the company's potential but also set back the cause of planning for a very long time.

Problems of introduction

One of the first problems encountered by a fledgeling planning staff is that the company is not a static entity. It is in fairly rapid motion through time. As accountants know, even to try and catch a static picture of a company at one point in time in the balance sheet is fraught with difficulties. Yet the planners need to get a comprehensive picture of the business as a starting point for the planning process.

Moreover, once that picture has been obtained it will not remain the same but will continue to change even while planning is proceeding. As Mr Hussey puts it: 'A company is rather like a non-stop express train. Somehow the planner has to jump aboard while it is still speeding along. Later he may help to change its pace and direction of travel, but he cannot stop it.'

This means that the planner is likely to become involved in immediate problems as soon as he assumes his new function. This in itself has its dangers. If he is drawn too much into the immediate problems, he may suffer the disadvantages that he is designed to overcome which arise through being too involved in day-to-day management and not giving enough time to the strategic needs. While some involvement in such problems may be acceptable, he must not lose sight of his prime function of dealing with the long-range strategy.

In a sense, the introduction should be evolutionary rather than pushed hard as a predetermined package. Other managers should be involved in such a way that there is no chasm between 'planning' and 'doing'. As far as possible, the planning function should be carried out on a team basis with the planning manager acting in a quasi-consultative capacity assisting other managers in the preparation of their plans; co-ordinating the planning activity; and as a catalyst to make planning happen.

Effective planning is impossible without some form of corporate appraisal. This is a systematic study of the business to establish the basic facts about why it is currently successful or unsuccessful. It will cover the whole of the business analysing products, distribution methods, production methods, profitability contribution, organization and financial strengths. Knowing what one is doing now is an essential ingredient to deciding what one wants to be doing in the future.

Setting objectives

The stages in setting corporate objectives as seen at Wander are as follows:

(*a*) a long-range target for corporate profits;

(*b*) a narrative description of the aims, ideals and nature of the business of the company;

(*c*) a statement of each of these two elements for every major area of corporate activity;

(*d*) quantitative statements, or goals, to mark progress towards the objectives (for example turnover levels);

(*e*) standard of performance for individuals (a variant of management by objectives).

Mr Hussey notes that the original profit targets that were set aroused a measure of incredulity among some managers, but as they became more and more integrated into the whole planning process, this attitude changed to one of determination to achieve the levels set. This underlines the motivating function of corporate planning.

Role of the manager

The introduction of corporate planning must take account of the quality of the managers already employed in the business. They will have the abilities and the limitations of an average group of managers and therefore a sophisticated system cannot be successfully implemented without first tackling the improvement in the quality of management in the area with which long-range planning is concerned.

In the case quoted, managers were first given long-range forecasts and this was accompanied by some outlines of alternative means of achieving that target. This made managers aware of the different type of thinking that is called for and stressed to them the meaning of long-range objectives.

This awareness must then be supplemented by some more formal instruction, such as seminars and courses. If carried out on a group basis with a mixture of functions in each group, this may have the additional advantage of breaking down some of the functional barriers to the integrated planning required. Within the firm this will then be supplemented by formal and informal contacts with the planner as different problems arise. The ultimate object of the process is to obtain the commitment of managers to the planning concept, and to obtain their full participation in the planning process.

During the introduction stage it is important not to push the planning sophistication beyond the capacity of the managers involved. They cannot change overnight and it would be unrealistic to expect them to do so; if pushed beyond their limitations at that stage it may produce a backlash against planning which will create problems for the future.

Planning system

The system of planning should finally be incorporated in a planning manual. It imposes the discipline of comprehensively describing the system and inviting criticism from those who are to be involved. Its function should be to coordinate planning activities to a common standard and, by simplifying routines, to save the time of line management in completing their portion of the process.

The main features of Wander's planning system are:

(*a*) It is a five-year system on a rolling basis.

(*b*) There is a strategic plan setting out the basic assumptions, objectives, gap analysis, and future actions, with outlines of possible alternatives.

(*c*) A personnel plan showing the manpower resources and skills etc., required to achieve the strategic plan, together with proposals for meeting those needs.

(*d*) A financial plan which includes cash-flow projections, sources of capital to be used, and other financial criteria, e.g., dividend policy.

(*e*) Long range operating plans written by departmental heads for their own departments.

(*f*) Annual operating plans setting out in both narrative form and budgetary form the first year of the five in detail. The financial results of this first year are administered under normal budgetary control methods and commit the managers to specific amounts of profit and turnover growth.

(*g*) Project plans comprising the appraisal and selection of major new investments of capital.

(*h*) A control process for monitoring progress linking the annual budget, long-range objectives, and personal standards of performance.

An outline of the structure of the system is shown in Figure 1.

Conclusions

The introduction of a system of corporate planning in any organization when applied properly should provide benefits in terms of profitability and growth. More fundamentally it should change the thinking process of management in a way that will clarify their role in earning profit and seeking out the growth areas of the future. This will be dependent upon the willingness of individual managers to accept new ideas and the self-disciplines that are implicit in the process. This cannot be achieved all at once but should result from a process of evolvement and involvement.

Figure 1
The Planning System

The harmony's fine: but what happens when one stops singing?

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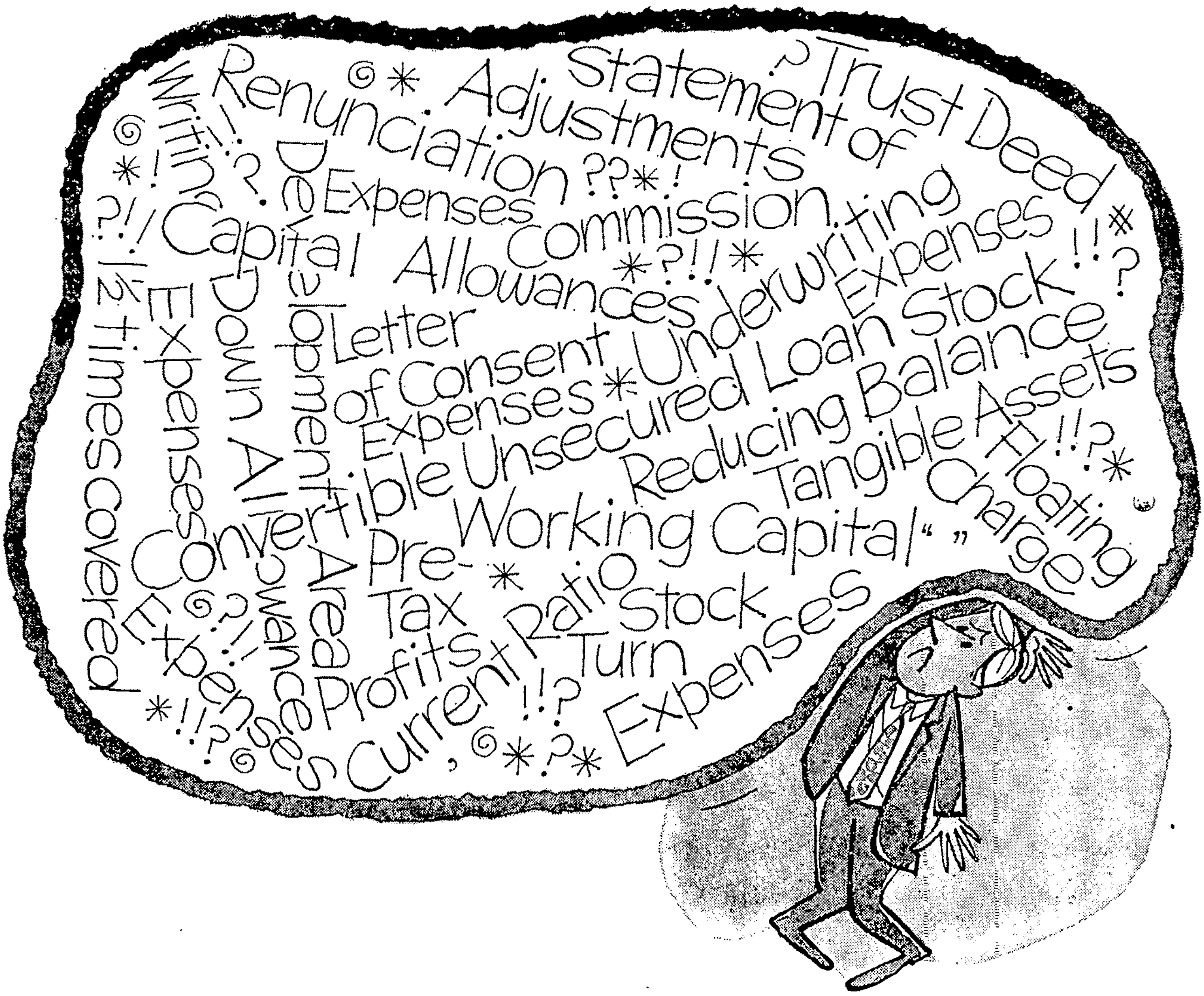

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Finance Bill 1971

Memorandum to the Chancellor

The following memorandum of comments arising from a preliminary consideration of the Finance Bill 1971, has been submitted to the Chancellor of the Exchequer on behalf of the Councils of the constituent members of the Accountants' Joint Parliamentary Committee (the allied accountancy bodies) comprising the English, Scottish and Irish Institutes of Chartered Accountants, and The Association of Certified Accountants.

THE allied accountancy bodies welcome the numerous simplifications to the tax system introduced by the Finance Bill 1971. The issue of explanatory papers in connection with various aspects of the proposed legislation has also proved most helpful and it is hoped that this technique will continue in future years.

Clause 12 – Annuities for the self-employed and others

2. (i) It is noted that clause 12 (3) provides for the calculation of the commuted lump sum to be based upon the qualifying premiums and not upon the capital value of the annuity provided. In the opinion of the allied accountancy bodies, such a basis will result in inequities because of differences in the age ranges in which the qualifying premiums may have been paid. Moreover, it does not appear to be in line with the budget proposals.

(ii) The allied accountancy bodies welcome the extensions to the limits of qualifying premiums paid by the self-employed in respect of retirement annuities. They regret, however, that the situation of those born in 1915 or earlier years appears to have been overlooked and accordingly submit that the 'sums' prescribed by section 228 of the Taxes Act 1970 should be doubled and the 'percentages' increased by 50 per cent, to correspond with the percentage increases adopted for the purpose of the new clause 227 (1A).

(iii) It is suggested that power should be taken to amend by statutory order the absolute limits prescribed in section 227 of the Taxes Act 1970 (as now amended) and section 228. The existing limits have been in force for 15 years and present inflationary trends imply that even the amended limits will gradually become inadequate. The allied accountancy bodies suggest that a simpler method of increasing them is warranted.

(iv) Confirmation is sought that the effect of paragraph (i) of Schedule 1 is that estate duty is not in any circumstances payable on the death of an individual in respect of an approved annuity payable to his surviving widow.

(v) It is submitted that an amendment should be introduced to allow a wife to provide similar benefits for her widowed husband.

(Note. In this memorandum the abbreviation 'Taxes Act 1970' is used for the Income and Corporation Taxes Act 1970.)

Clause 13 – Occupational pension schemes

3. (i) The allied accountancy bodies regret to note that no provision for the inclusion of controlling directors in occupational pension schemes has been made. They submit that the exclusion of such persons by section 19 (2) (*f*) of the Finance Act 1970 should be removed.

(ii) The allied accountancy bodies, whilst welcoming the introduction of a new subsection (2A) to section 21 of the Finance Act 1970 to provide for the exemption from tax of underwriting commissions received by exempt approved schemes, submit, however, that the exemption should be extended to approved superannuation funds under section 208 of the Taxes Act 1970.

(iii) The allied accountancy bodies would be glad to learn why it has been considered necessary to introduce the new definition of 'final remuneration' in paragraph 12 (4) of Schedule 2 having regard to the existing definition contained in paragraph 8 of Schedule 5, Finance Act 1970, and to the statement of practice set out in paragraph 71 of the Board's booklet (IR 12 (October 1970)) *Occupational Pension Schemes*.

Clause 15 – Taxation of wife's earnings

4. The time limit for making the election of six months from the end of the year of assessment is considered unduly short and in spite of the provision that the Board may extend the period in particular cases, the allied accountancy bodies submit that the latest date for the making of the election should be extended to twelve months after the end of the year of assessment.

Clause 16 – Claims for deferment of part of surtax for 1972–73

5. In the opinion of the allied accountancy bodies the payment of the higher rates for 1973–74 together with surtax for 1972–73 within the same year will place a serious burden on many taxpayers. The proposals for mitigation are noted but it is not thought that these are adequate. It is considered that there is a case for waiving some or all of the double burden as was done with income tax at the time the PAYE system was introduced. Failing such a waiver, it would ease the difficulty (though it would not remove it) if the 1972–73 surtax liability on earned income and on income charged by direct assessment were payable in three equal instalments due respectively on January 1st, 1974, 1975 and 1976, and if interest should not run until those due dates.

Clause 17 – Close companies

6. It is submitted that clause 17 (5) (*c*) should provide an exemption for the case where the borrower acquires control by reason of death or an unsolicited gift, providing that he repays the loan within a reasonable time.

Clause 19 – Deductions on account of income tax from payments to certain subcontractors in the construction industry

7. The allied accountancy bodies foresee practical difficulties in interpreting chapter II arising from the imprecise definition of subcontractors and the determination of the amount to be attributed to materials used in carrying out construction operations.

Clause 23 – Personal reliefs

8. (i) In the opinion of the allied accountancy bodies it would be a simplification of the 'claw-back' arrangements if the taxpayer had the option of surrendering as an additional amount of tax the precise amount of family allowances drawn during the year. This would avoid 'claw-back' and obviate the need for the return and reissue of family allowance books.

(ii) Paragraph 3 (1) of Schedule 3 appears to result in the restriction of life assurance relief. The allied accountancy bodies ask if this is intended.

Clause 25 – Abolition of certain provisions relating to surtax

9. There appears to be no justification for this clause which repeals sections 31 and 32 (*inter alia*) of the Taxes Act 1970. In the opinion of the allied accountancy bodies these relieving provisions should be restored especially as the anti-avoidance provisions of section 30 of that Act are apparently to be retained.

Clause 27 and Schedule 5 – New method of charging income tax – consequential amendments

10. (i) The allied accountancy bodies are disturbed by the proposal in paragraph 3 of Schedule 5 that income tax at the higher rates should be due and payable on or before July 6th following the end of the year of assessment. On administrative grounds alone such an early date is regarded as unworkable except by the frequent use of estimated assessments and the allied accountancy bodies see no reason for departing from the due date of payment which now prevails, namely, January 1st in the year following the year of assessment.

(ii) Paragraphs 67 (ii) and 68 (ii) of Schedule 5 each refer specifically to paragraph (*b*) of section 22 (1) of the Finance Act 1971. This paragraph, however, deals only with total income and not with investment income. It appears that each of the above sub-paragraphs should be amended to ensure that the amount of investment income determined in pursuance of section 22 (i) is also suitably increased.

Clause 31 – First-year allowances; general rules

11. (i) Clarification is sought as to the effect of the proviso in clause 31 (1) where there is a notional discontinuance of an otherwise continuing business, for example, in the case of a partnership change treated as a discontinuance where for the purpose of capital allowances, assets are treated as transferred at their written-down value.

(ii) It is submitted that the time limit of two years from the end of the year of assessment provided by clause 31 (3) should be capable of extension at the discretion of the Board.

(iii) It appears that anomalies may arise through the operation of the restriction in clause 31 (2) in cases where

(*a*) machinery and plant is purchased but without having been used is subsequently sold;

(*b*) expenditure is incurred but delivery is never effected and possibly a cancellation charge is incurred.

It is submitted that a taxpayer should have the option of claiming an allowance in each of the above cases.

Clause 32 – First-year allowances: rates

12. (i) It is submitted that clause 32 (5) should be extended to cover the total expenditure including 'own-work' incurred where a capital project has been commenced but not completed before an area has ceased to be a development area.

(ii) A comparison of the definition of industrial purposes included in subsection (6) with the proposals in the White Paper on *Investment Incentives* shows the following:

(*a*) the White Paper included as a definition of industrial purposes a 'trade or part of a trade which is carried on in a mill, factory or other similar premises' but this definition does not appear in subsection (6);

(*b*) the White Paper (paragraph 10 of the Appendix) indicated that the trades qualifying as industrial purposes would be extended to include 'building construction and demolition, and civil engineering'. It appears that this inclusion has been effected by subsection 6 (*c*), which reads:

> 'the manufacture of goods or materials or subjection of goods or materials to any process'

whereas the previous definition added:

'not being the process in the construction or erection of a building or structure'.

Clarification is requested that:

(*a*) there is no trade which could be carried on in a mill, factory, etc., which is not otherwise covered in the definition in subsection 6; and

(*b*) the trade of building construction, etc., is adequately covered by the reference to the subjection of goods or materials to any process in subsection 6 (*c*).

(iii) It is noted that the definition clause 32 (6) omits the reference to the fishing industry as in section 7 (1) (i) of the Capital Allowances Act 1968. The allied accountancy bodies wish to inquire whether this is intended.

Clause 34 – Writing-down allowances and balancing adjustments

13. (i) It is thought that it would make for greater certainty of computing the disposal values for the purpose of clause 34 (6) if a time limit for the application of sub-clause 6 (*e*) was specified.

(ii) The allied accountancy bodies note that by the proviso to clause 34 (2) a claim may be made for the writing-down allowance to be reduced in the case of a trade carried on by a person other than a company. It is submitted that a company should have a similar power to require a reduction in the amount claimed as in the case of first-year allowances, otherwise section 515 of the Taxes Act 1970 should be allowed to apply to the new allowances, thus obviating the need for clause 44.

Clause 36 – Machinery and plant on lease

14. This clause applies to capital expenditure on plant and machinery incurred on or after October 27th, 1970, and is hence retrospective in that no indication of the proposed change was included in the White Paper *Investment Incentives* (Cmnd 4516). Cases arise where contracts have been made since October 27th, 1970, on the footing that the capital allowances would go to the lessee under section 43 of the Capital Allowances Act 1968. It is submitted that provision should be made whereby expenditure made on or after October 27th, 1970, and up to the date of the publication of the Finance Bill should be capable of being claimed under the 1968 provisions if both parties so elect.

Clause 45 and Schedule 8, paragraph 5 – Allowance for betterment levy in calculating chargeable gains

15. (*a*) In the opinion of the allied accountancy bodies the provisions of paragraph 5 should be extended to cover levy charged under Case D or Case E. The reason for excluding these two cases is not understood.

(*b*) It is submitted that, for the purpose of paragraph 5 (6), the amount or value of the consideration brought into account under paragraph 4 (1) (*a*) of Schedule 6, Finance Act 1965, should be reduced in the same proportion as current use value or cost was reduced (so as to exclude the part not realized) in calculating the liability to betterment levy.

Clause 47 and Schedule 10 – Exemption or relief for small disposals

16. The operation of paragraph 2 (1) (*b*) of Schedule 10 would appear to lead to an inequity in the case of a shareholder with worthless shares who has no other transactions in the year as it eliminates £500 of loss. On the other hand, if he happened to sell another security in the same year for more than that figure he would be able to claim the loss on the worthless shares.

Clause 49 – Abolition of charge to capital gains tax on death and Schedule 11 – Settled property

17. In the opinion of the allied accountancy bodies paragraphs 7 and 10 appear to lead to many difficulties in practice and do not lead to the simplifications which appear to be intended. For instance, it appears that section 25 (4) of the Finance Act 1965 treats as a disposal the whole of the assets of a trust where a life interest in part only of the trust is succeeded by a further life interest. In the interests of simplification it is submitted that paragraphs 7 and 10 should be deleted and that there should be no charge to the capital gains tax on a change of life-tenant or on the death of a discretionary beneficiary. It is considered that the amount of tax revenue which would be lost by such an amendment would be small. In other words, liability to tax should arise only where there is a change of investments or where assets are taken out of the trust.

Clause 51 – Payment of estate duty by instalments

18. (i) The allied accountancy bodies do not understand the exclusion in clause 51 (10) of professions and vocations from the classes of business to which the clause is to apply and submit that the exclusion should be removed.

(ii) Confirmation is sought in respect of clause 51 (2) (*b*) that the concession under which borrowings from a company to pay estate duty escape the effect of section 286 of the Taxes Act 1970 will continue to apply.

Double taxation relief

19. In the White Paper entitled *British Private Investment in Developing Countries*, the Government undertook to propose an amendment to the Finance Bill to provide that underlying relief in respect of dividends from foreign companies, in cases where at present a 25 per cent holding of the voting powers is required, should be reduced to a 10 per cent holding in developing countries. It may be relevant to request that developing countries be specified by name either in a schedule to the Act or in a statutory instrument, rather than attempting a definition by reference requiring research to determine whether a country is within or without the definition.

Disallowance for tax purposes of interest on borrowed money

20. The allied accountancy bodies note with regret that the Finance Bill contains no proposals to repeal the provisions of the Finance Act 1969 regarding the disallowance of interest for tax purposes.

Pacific Acceptance Corporation

Heavy Damages Against Auditors

by K. BUCKLEY EDWARDS, Barrister

Readers of the Atlantic Acceptance Corporation *case* (The Accountant, *December 10th, 1970) will be more than interested in the Australian case of* Pacific Acceptance Corporation Ltd v. Forsyth and Others *in which the duties and responsibilities of auditors were again considered in depth.*
In the latter case the auditors were ordered, by consent, to pay their former client $A1·5 million in damages and also, by consent, each party was ordered to pay its own costs estimated to total more than $A500,000. The case was one of the longest ever heard in Australia – the hearing lasting 272 days and the judgment – a copy of which has recently come to hand – running to 359 typed folios.

IN order to follow the judgments, the auditors' failures, the judge's strictures and his recommendations, it will be necessary to set out the facts of this case fairly fully. The business of the Pacific Acceptance Corporation was the lending of money on security. Its head office was in Sydney and it had a branch in Melbourne. The Melbourne branch commenced business in 1955 and first engaged in financing the hire-purchase of second-hand motor vehicles.

Later, advances called 'business finance' were made in respect of businesses upon the security of bills of sale. Later still, advances were made upon the security of mortgages of real estate. The staff of the Melbourne branch consisted of a manager, his assistant and certain secretarial assistance, and the events giving rise to the proceedings against the auditors occurred in that branch principally between July 1957 and November 1960.

Unregistered mortgages

A major part of the case against the auditors related to allegations of negligence directed to the failure of the auditors at an early stage to discover, by and in the course of vouching procedures, and to give warning of, fraudulent and irregular features of loans, supposedly secured by registered mortgages, made to a man named Thompson. Dealings with Thompson commenced in 1957, and in the three ensuing years there were increasing loans through Thompson as estate agent, to Thompson and his wife, and to companies controlled by Thompson.

In October, 1959, Pacific entered into a joint venture with Thompson through a company called Pavic Investments Pty Ltd ('Pavic'), to which Pacific advanced very large sums which were eventually substantially lost, and which it claimed it would not have lost but for the negligence of the auditors in relation to the Thompson loans. Prior to June 30th, 1960, Pavic became a wholly-owned subsidiary of Pacific and Thompson became a principal shareholder and director of Pacific. In September 1960, Pacific acquired virtually all of Thompson's remaining assets.

In a number of loans in 1958–60, Pacific obtained no registered first mortgage as intended; loans were made to companies which turned out to be fictitious and money was diverted to Thompson by means of irregular cheque endorsements. In some cases a mortgage was or might have been executed over land to which the borrower had title, but the mortgage was not registered and Pacific did not, therefore, have the benefit of a registered first mortgage. These irregularities became possible largely because of laxity in the running of Pacific's Melbourne office, whose manager sometimes left it to Thompson to see to the documentation of the loans and the security for them, on an assurance from Thompson that this was being seen to by a solicitor named Evans who was a director of Pavic. Thompson was thus able to employ or not employ Evans as he wished, or to do the documentation or supposed documentation himself. He was also able to give Evans whatever instructions he wished.

The deception was facilitated because the manager of the Melbourne office of Pacific was prepared to allow the solicitor to hold the security documents himself (which was said to be common practice in Melbourne) and to have for his own files no more than a copy of the mortgage bearing no date or signatures. There was also some laxity on the part of Pacific's head office in Sydney in enforcing the observance of its required procedures.

According to the judgment the deficiencies, fraudulent or otherwise, which occurred in connection with the Thompson loans and securities could have been discovered by available means of checking. Furthermore, the frauds committed by Thompson were for the most part neither cleverly concealed nor cunningly executed so as to make detection difficult. A request for the production of the registration copies of the appropriate mortgages, or the title deeds to the properties supposedly mortgaged, which Pacific was entitled to hold; or a request to produce the executed mortgages; or an appropriate search at the office of the Registrar of Titles against the title references shown in such copy mortgages as were in Pacific's possession, would have uncovered the lack of proper securities in at least many material instances.

Audit programme

The field work in Melbourne, which consisted principally of vouching, was done almost exclusively by clerks from the auditors' Melbourne office. A manager or senior rarely, if ever, attended, and then only for the purpose of introduction or change-over.

When the audit work commenced in Melbourne in 1955, a draft audit programme was sent from Sydney and settled

by the auditors' Melbourne office. This programme did not cover mortgage loans, as they did not then form part of Pacific's Melbourne business. Later, when loans on the security of bills of sale began to form part of Pacific's business, an alteration was made to the Melbourne programme of the auditors on lines suggested by Sydney. Some part of the programme could be said to be applicable to a loan on the security of freehold, but many of the requirements would be quite different.

When the car finance business completely disappeared, the part of the Melbourne programme referable to that type of finance was crossed out, but no other alteration was made to the programme when loans on mortgages of freehold began to be made. The audit clerks continued to adopt procedures as they thought fit, notwithstanding that the Sydney audit programme was amended to cover freehold mortgage loans.

In relation to the Thompson loans, Pacific's Melbourne office would usually receive at some stage what purported to be a copy of the mortgage, but was not in fact a 'copy' due to the omission of any date or signature. Save in the exceptional case, there was no evidence whatsoever of the registration of mortgages in the case of Thompson loans.

The procedure of the audit clerks was to inspect the documents which were in Pacific's possession, to make some entries in a working paper identified as 'new business journal vouching', and follow up some matters which appeared to them at the time to call for some action. The vouching of the loans paid some regard to the security for the loans in that the audit clerks did look to the material in Pacific's possession which did relate to the security. But no inspection was made or sought to be made of original mortgages or registration copies, i.e., the copies which would come back from the Titles Office after registration with an official endorsement of registration.

No inspection was made of any certificates of title that ought to have been held on Pacific's behalf as part of the security, nor was it part of the procedure laid down for the Melbourne audit to do so. Apart from a limited isolated occasion, there was no attempt to obtain from the solicitor any certificate as to title, the execution of the mortgage or its registration, or the holding in proper custody of the mortgage security and certificate of title. There was no attempt to check the existence of the original mortgage or its registration by any inquiry in any instance, either by way of sampling or generally. There was no attempt to do so by search at the office of the Registrar of Titles, although the copy mortgages contained title references. No procedure or programme was laid down in advance and no decision to do so was taken as a result of any irregularity or circumstance come upon in the course of the audit.

Irregularities and inconsistencies

In the case of the Thompson loans, Pacific claimed that there were many irregularities, inconsistencies and unusual circumstances of all sorts which should have led to further inquiry or action which would have led to the uncovering of the activities of Thompson. Some cheques received by Pacific from Thompson and his companies were dishonoured, but the auditors took no action other than to check that the sums were eventually met. They did not examine in depth the transactions involved, and no provision was made for bad or doubtful debts in respect of loans made to Thompson or any of his group of companies in respect of the years 1958, 1959, or 1960.

Pavic was audited by another firm of auditors, whose report, due to various factors was not given until very late; although a set of draft accounts was obtained by the Melbourne office of Pacific's auditors and forwarded to its Sydney office for the purpose of preparing the consolidated accounts of Pacific. Having prepared the consolidated accounts, Pacific's auditors gave an unqualified report thereon without waiting for the written audit report on the accounts of Pavic, or even for the official accounts themselves.

When eventually made, the report of Pavic's auditors was extensively qualified. The judge said that this qualified report ought to have led to greater scrutiny of the Thompson loans, and the matter was of such seriousness that the lateness of any discovery should not have deterred the auditors of Pacific. Whether their report had been signed or not, they should have promptly indicated to the board what had been found. If more time was needed, they should have asked the board to have the general meeting adjourned; and in default of the board procuring such adjournment, they should have attended the general meeting themselves and disclosed the position.

The judgment

The detailed judgment on which this article is based was delivered in two parts, the principal part on January 8th, 1970, and the second part on February 29th, 1970. The final judgment, relating to the *quantum* of damages was given in May 1970, but there had also been an interim judgment on the issue of liability on November 12th, 1969.

Vouching of freehold mortgage loan securities

The auditors were negligent in respect of the vouching of freehold mortgage securities. To discharge their duty, the auditors should have satisfied themselves by some proper means that the securities for each of the material loans during the audit year, or outstanding at the balance date, as the case might be, had been executed and registered. As the loans were made on the basis that they were to be properly secured, the existence of the security was material to the recoverability of the loans. Where hundreds of thousands of pounds were lent to one group, the question whether the loans intended to be secured were in fact secured might be very material indeed.

The substantial question was what minimum procedures the auditors should reasonably have adopted to satisfy themselves as to due execution and registration of the mortgages. They could have checked each mortgage to satisfy themselves that it was duly executed and registered, or they could adopt a sampling procedure. The general approach might be justified if loans included a large number of small loans which were dealt with in a regular well-documented fashion, whereas it might not if the lending consisted of only a moderate number of loans all of substantial amounts.

What, said the judge, ought reasonably to be done to attain satisfaction? Ought the original documents to be inspected? Ought some documentary evidence of registration to be inspected? Would certificates from a solicitor suffice, and what at least should they certify? In substitution for inspection or certificates, would something less suffice, such as an inference on some basis and/or assurances from some person that the mortgages had been executed and registered? In the event the auditors neither inspected the documents nor obtained certificates, except perhaps in an

isolated case. Overwhelmingly, the auditors were negligent in doing neither.

The auditors' first approach was to attempt to force what was done (or not done) into the audit framework of 'reliance on internal control'. But their procedures disregarded most of the fundamentals required to be observed before the system of internal control could properly be relied upon. The other approach was to treat the existence of the mortgages and the fact of registration as though their verification involved technical legal questions within the exclusive province of an expert, and either outside the field of the auditor or at least such as it was proper for him to rely upon a solicitor. But an auditor did not find out if loans had been secured by merely inferring that someone else had done what he was supposed to do. It needed no expertise to satisfy the auditors whether or not a mortgage existed; there was every reason why the auditors ought to have inspected original documents rather than taken certificates, but they did neither. A professional man like a solicitor was not outside the audit field.

Internal control

Reliance on a company's own system could not validly and reasonably be used by auditors so as to pass responsibility on to others. It ought not to be used, after a perfunctory appraisal and token testing of the company's system, to substitute the opinion and work of management for their own. There were three essentials that must be met before an auditor could reasonably rely on the company's system of internal control, viz.:

(i) there must be a proper inquiry to ascertain the company's system;
(ii) there must be an appraisal of it by a person of sufficient audit competence; and
(iii) there must be a testing of its operation.

In the case the auditors failed in respect of all three essentials; indeed, they never really applied their minds to questions of internal control in relation to mortgage loan vouching. The auditors' own evidence showed that in some cases there was no evidence at all that a solicitor was acting. In this context, at the least, sample cases should have been pre-selected on some representative basis and then checked in depth.

Where evidence was lacking or was insufficient to comply with the requirement of a sample, proper audit practice required that the matter be followed through and not put off by verbal excuses for the absence of proof.

Large loans to one group

The fact of large loans to a single group was an even more compelling reason for specific checks. When documents could be inspected with great facility, it was not irrelevant when the auditor's conduct was being looked at that supposedly the great bulk of the documents was only a few floors away in the same building.

It seemed the audit clerks thought it was none of their business to check on the work of another profession, i.e., that of solicitors; but they misconceived their duty if they thought it was limited to checking and recording only the documents of the company which were in its possession. Auditors acting reasonably should have provided in their procedures that, in respect of material loans, the original mortgages should be inspected. In view of the relationship of the solicitor to the borrowing group, i.e., that of director, the mere acceptance of certificates, even appropriately worded, would have been insufficient except in isolated instances.

The documents inspected should have been the registration copy of the mortgage and, where the mortgage was supposed to be a first mortgage, the certificate of title. Each of these would show the registration, the former by the official stamp and the latter by the endorsement of the registration of the mortgage on the certificate of title.

If the inspections had been properly insisted upon and properly carried out, they must inevitably have led at least to a suspicion of fraud, or evidence of fraud. It would then have been for the company to conduct the detailed investigation, but the auditors should still have pursued the matters so far as they related to their work in connection with the accounts in the year in question and in any succeeding year.

Irregularities calling for further inquiry

There were numerous and material irregularities in the case, and the auditors negligently omitted to take proper and adequate steps in consequence of their discoveries so that their negligence was sustained and serious. An auditor ought not to be expected to be aware of every detail of a solicitor's work; but when he was dealing with matters material to the audit, he ought to acquaint himself with the system of operation to an extent sufficient to enable him to form material judgments.

The auditors should have made some report to the head office of the company as to the confused and deficient state of the documentation of the Melbourne branch, particularly in respect of the Thompson loans. The inexperience of the audit clerk, which it seemed was a substantial reason for his inadequate approach, did not excuse the auditors, but rather more easily placed the errors and omissions into the category of negligence.

Cheque endorsements

In a number of cases the borrower was a fictitious name. In all such cases except one, the company's cheque was paid to 'A. J. Thompson & Co Pty Ltd', and then Thompson, as director of that company, endorsed the crossed cheque to his own order and paid it to his personal account. The audit clerk queried this proceeding in more cases than one but allowed himself to be satisfied by the assurances of the manager of the company's Melbourne branch.

Dishonoured cheques

Some cheques drawn by Thompson and payable to the company had been dishonoured. The judge said that in many cases the auditor would encounter the dishonour some time after it had taken place, so that the circumstances which followed it would resolve the matter. No action on the part of the auditor was called for, for example, where an isolated cheque had, after dishonour, been met. Again, no action was called for where such a cheque remained outstanding, and the account was treated as bad or doubtful by the company. But where the cheques dishonoured were those of a borrowing group with continuing dealings, and the borrowings as a whole were substantial, the circumstances of the dishonour might call for very close attention, and the auditor's concern might not necessarily be legitimately concluded because the cheques were eventually met. The auditor's attitude would be dependent upon whether all the accounts outstanding with the drawer were, to the certain knowledge of the auditor, in fact covered by adequate security.

Inexperience of audit clerks

A change had been made in the Melbourne audit programme when business finance involving bills of sale was introduced in Melbourne. This altered programme provided, amongst other things, for inspection of bills of sale and checking that they were duly registered. It had been regarded as reasonable to make this change soon after the change in business had occurred.

The audit clerks in Melbourne regarded the audit programme covering business finance as applicable to the vouching of the advances, but not the securities, in the case of freehold mortgage loans. They did not consider that they had a like obligation to inspect the registration copy of the mortgage or to check the official endorsements on it regarding registration. There was little satisfactory evidence that anybody applied their mind to altering the programme, or as to what the procedure should be or what audit considerations were involved. The audit clerk was left to his own devices to determine what procedures should be adopted. The omission of procedures to vouch mortgage loan securities from the programme was the key to the omissions and deficiencies in the work of the audit clerks.

Breaches of duty

The shortcomings of the vouching of securities had several consequences. They constituted failures to audit in the proper sense. They constituted failures to report using due skill and care in that the opinion reported was not formed on the basis of proper vouching of securities. There was a resulting failure to discover fraudulent and irregular dealings with a consequent failure to report them.

Having regard to the transactions involved and in particular those outstanding at balancing dates, there was a consequent failure to make a proper evaluation of the provisions required in the accounts for bad and doubtful debts. The sooner a discovery of fraudulent activities was made, the sooner would those activities be stopped. Accordingly, the earlier the breach of duty to warn, prima facie the greater the damages for which the auditors would be liable.

Consolidated accounts

The accounts of Pavic had been audited by a different firm, whose report for 1960 was qualified. This provided a reason why the Pacific auditors could not justifiably, without more ado, incorporate Pavic into Pacific's group accounts, and then express their opinion (as they did) as to the truth and correctness of Pacific's group accounts. This raised matters of general concern in the audit of related companies by different auditors.

While the auditor of the parent company and the group had a contractual duty directed, as the authorities indicated, to the interests of the shareholders who would directly read the information and who knew nothing of the internal affairs of the company, the auditors of a wholly-owned subsidiary appeared, at least contractually, to have a duty directed only to a single shareholder, their parent company, where management and the shareholder merged.

This difference of duty by different auditors, where a parent auditor relied on the subsidiary auditor's work in aid of expressing his own opinion on the truth and fairness of the group accounts, had some unsatisfactory features. If in particular circumstances a parent auditor might reasonably rely upon the audit of a subsidiary by a different auditor whose report was qualified, then in evaluating the report or incorporating it into his own report, he should appreciate that he was speaking to a different and less informed audience than that to which the subsidiary auditor had spoken. It was the clear duty of Pacific's auditors, in the circumstances, not to have reported on the consolidation as they did while the qualified report on Pavic existed and without investigation or inquiry concerning its terms, their subject-matter or what lay behind them.

A matter which ought to be of serious concern to the auditors of a group and might need some future consideration was that fallacies could arise in some cases if the accounts of a group of subsidiaries, each true and correct in themselves, were assumed of necessity to give rise to a true and correct account by arithmetical amalgamation, unless the group auditor satisfied himself that the subsidiary accounts were kept on principles consistent with those of the group. The writings of the profession acknowledged that. The judge left undecided whether the auditor of a consolidated balance sheet or accounts could properly express his own opinion by reliance on accounts not audited by him but by another independent auditor.

The judge assumed, without deciding, that he could do so, but decided that in that event he must properly satisfy himself that the auditor of the subsidiary had in fact been satisfied as to the truth and correctness of the subsidiary accounts. He could not reasonably rely on the mere sighting of the audit opinion; the onus was on him to satisfy himself positively that it was reasonable to rely on such audit and that the chance of error would be reasonably minimal.

Audit procedures under existing law

The judge felt obliged to make some observations of general application, since 'a sufficient example of some serious problems had been seen to indicate quite clearly some obstacles to the efficient discharge in the public interest of some audit duties'. He considered some reform was desirable in each of the following respects:

(1) In the case of public companies, subject to proper exceptions, the elimination of the practice of having separate auditors to audit and report upon the accounts of subsidiary companies.

(2) Where the audit of a subsidiary was by an auditor other than the parent auditor, and where any reliance was placed or proposed to be placed upon the subsidiary audit in the audit of the group accounts, the appointment and identity of the subsidiary auditor should be disclosed to and be subject to confirmation by the shareholders of the parent company.

(3) The provision of some aids to the audit profession so as to ensure independence by minimizing the conflict of interest and duty of auditors; in particular by providing some protection in appropriate cases for continuance in office subject to Court supervision of an auditor who qualifies a report in defined material respects.

It was well recognized that fraud and error could occur within a consolidation by adopting different accounting methods with different companies within a group. Lack of provision in the accounts of a subsidiary did not necessarily mean that no provision should be made in the consolidation in respect of that subsidiary's account, e.g., where there was a take-over between the balance sheet date and the giving of the report on the subsidiary's accounts. The audit of a consolidation, which was intended to provide shareholders with some kind of assurance from the opinion of a named auditor that the accounts of the entire business operation displayed its true position, was inclined to be conducted on the basis of inference and often assumption rather than by

a true audit check and audit opinion by the known auditor.

Various practices as to the extent of the audit work and the form of the report had grown up, whereby some auditors of consolidated accounts avoided taking responsibility for the field covered by the other auditor or minimized responsibility for the same, e.g. by excluding the subsidiary account from his opinion other than to perform the mechanical task of consolidating it and in certifying that it had been audited by some other (usually unnamed) auditor. It was notorious that in other cases, without using words of qualification, the stated opinion of the group auditor was based on an examination of the audited accounts of the subsidiaries.

The multiplicity of auditors sharing the audit of the group, and the kind of practices apparently at times adopted on the part of the parent auditor to avoid or minimize his responsibility had some serious disadvantages, including the following:

(*a*) The errors and disadvantages already indicated.
(*b*) The fact that the substance of the consolidated audit opinion might depend upon the opinion of an auditor who probably would not be named and who was not appointed by the ultimate shareholders but by the parent company, i.e. management.
(*c*) Management, without reference to the ultimate shareholders, and without informing them, had the discretion whether to reappoint or not reappoint the auditors of the subsidiary companies.

Independence of the auditor

The judge said that expert evidence indicated considerable conflict on the question of reliance of the auditor upon management. Although the shareholders appointed the auditor – a right which in some cases of conflict might be of real and considerable importance – in many cases management was in a position in a practical way to influence the appointment and replacement of auditors. Moreover, of necessity, the persons in true communication with the auditor were management and the directors.

The auditor was put in a position where there must often be a real and practical conflict between his duty to the shareholders and his interest not to take action which might prejudice his reappointment or his relations with those with whom he worked. In so far as it existed or apparently existed, it was calculated to undermine the independence of the auditor and public confidence in audit reports.

The conflict was more complex and possibly more real where there were take-overs and where questions of change of auditors arose. In the present case, when the Pavic auditors qualified their report, they had already been notified that they were to cease to be auditors of Pavic as from July 1st, 1960; but there was no material in the case from which it could be suggested that either this motivated the auditors of the subsidiary to issue a qualified report, or that the appointment was changed because of the report.

Comparisons

In the *Atlantic Acceptance Corporation* case (*The Accountant*, December 10th, 1970), the auditors of the parent company accepted the accounts and reports of the auditors of the subsidiaries involved (which were unqualified in this case) with a minimum of inquiry, but in accordance with the standards for reliance on the work of other auditors then accepted in Canada. It was this issue which was of prime importance in the case, and it is clear from his report that the Commissioner is at variance with the profession (certainly in Canada and possibly in the United States and the United Kingdom) as to what is required from the auditor of the parent company before he relies on another auditor's work.

At the material time, the Canadian Institute of Chartered Accountants had made no specific pronouncements on reliance on the work of other auditors. It had implied that auditors could rely upon the work of other auditors but it had been less than specific on the steps to be taken before that reliance was placed. As a consequence, practice tended to be guided by The Institute of Chartered Accountants of England and Wales' Statement on Auditing U5 (*The Accountant*, February 13th, 1965) and the American Institute's *Statements on Auditing Procedures No. 33*, neither of which meets the more stringent requirements that the Commissioner in the *Atlantic* case would like to see.

Section U5 of the English Institute's *Statements on Auditing* states, *inter alia*:

> 'A holding company's auditors are not relieved of responsibility for accepting information from accounts which have been audited by others. It is proper to take account of the nature and extent of any examination carried out by other external auditors just as it is proper to take account of the internal control; but, whether the group accounts are prepared in the form of consolidated accounts or in some other form, the opinion which is expressed on them is the opinion of the auditors of the holding company. While it is usually desirable for the holding company's auditors to include in their report some such factual statement . . . as:
>
> "The accounts of one (or some) of the subsidiaries have been audited by another firm (or other firms)",
>
> this does not relieve them of their obligation. The responsibility for the opinion which they express is theirs and theirs alone, and it is their professional competence and reputation on which the shareholders who appointed them are relying.
>
> 'Thus, while the context in which auditors report on group accounts embracing subsidiaries of which they are not themselves the duly appointed auditors differs from that in which they report as the duly appointed auditors of a particular company, and accordingly gives rise to a difference in the character of their audit inquiries, the auditors of a holding company have a duty to form in that context, an opinion of their own on the group accounts; this is a duty which cannot and should not be disclaimed and is not discharged by uninformed acceptance of the accounts of the constituent companies.'

The English Institute's statement goes on to say that if it is found that the holding company lacks information about any of its subsidiaries which is needed by the holding company's auditors to enable them to form their opinion, the auditors of the holding company should ask for the deficiency to be made good.

What went wrong

What went wrong in the *Pacific* case was that the auditors, although understood to be associated with a large English firm, did not seem to appreciate their responsibility as auditors of the holding company; they put in a drawer the qualified report of auditors of a subsidiary company, and gave an unqualified report on group accounts; they did not provide the audit clerks with a programme designed to meet the needs of a finance company lending money on first mortgage of real property; they employed young and inexperienced staff and did not supervise them properly.

The professional independence of auditors was also considered in the *Atlantic* case. A procedural recommendation of the Accountants' International Study Group is

that the primary auditor must satisfy himself that the other auditor is independent within the rules and practices of the country in which the primary auditor is located. The *Atlantic* case showed that no inquiry was made into this by the primary auditors. Had such inquiries been made, they would have shown that individual partners of subsidiary auditors were so immersed in the activities of Atlantic, or of companies associated with or dealing with the group, that they completely lost their independence and were associated with the president of the parent company in many transactions which were 'mostly dishonest and undertaken at the expense of Atlantic . . . .'

Many professional bodies of accountants now have firm and stringent rules of conduct governing independence. Significantly in Canada, and uniquely so far, the Ontario Business Corporations Act 1970 has enacted provisions for maintaining the independence of auditors, rather than leave the standards of conduct to be set by the professional accounting bodies.

Since example is said to be better than precept, and in any case examples are usually easier to remember, the many ways in which the auditors of the group accounts in *Pacific* failed in their duty, are worthy of study by the profession. Damages can run to high figures in the case of negligence, to say nothing of the loss of prestige which follows.

[It should be pointed out that Thompson was tried in Victoria in 1963 on criminal charges relating to a number of the transactions dealt with in the *Pacific* case, and after a trial lasting about three months was acquitted by the jury. However, the acquittal did not operate as an estoppel in the civil proceedings in *Pacific*, and the judge said it would not be possible reasonably to approach the case except by treating the dealings of Thompson as having the character that the civil evidence established].

Taxation Cases

Allan's Trustees *v.* CIR

In the House of Lords – December 15th, 1970

(Before Lord REID, Lord MORRIS OF BORTH-Y-GEST, Lord GUEST, Lord UPJOHN and Lord DONOVAN)

Estate duty – Insurance policy – Three beneficiaries – Policy settled by insured – Insured as trustee – Only one beneficiary informed – Death of insured – Whether deceased never had an interest – Whether policy money partly aggregable – Finance Act 1954, section 33 (2).

On December 12th, 1963, the deceased took out an endowment policy of £1,345,164 on her life, and the policy money was to be payable to her as 'per accompanying letter of request', in which she stated that she intended that the policy should 'from the moment of its commencement be held upon an irrevocable trust' in three separate amounts for three beneficiaries, one of whom was Miss M. C. Ramsay. In no circumstances was the deceased to be entitled to any personal benefit thereunder. The policy was written by the insurance company on December 31st, 1963. The deceased was the trustee until April 1st, 1964, and was then succeeded by two other persons, one of whom was her solicitor and the other Miss Ramsay. The deceased died on December 3rd, 1964.

It was conceded on behalf of the Inland Revenue that the deceased had never had an interest in Miss Ramsay's portion of the policy money, as the latter had been informed of her interest from the commencement of the trust; but it was contended that the deceased had had an interest in the portions of the policy money destined for the other beneficiaries until April 1st, 1964, in that they had not been informed of their rights in the trust, and the deceased could have revoked their interests, and vested their rights in herself or other persons.

It was contended for the trustees (i) that the trustee was in law not the deceased, but the insurance company; and that the deceased had been nominated trustee for the benefit of all three beneficiaries, so that she could not alter any of the beneficiaries' rights; (ii) alternatively, that, if the deceased was the trustee, the other two beneficiaries each had the rights of a third party, in whose favour the deceased had evinced a contractual intention to convey an irrevocable right in their respective portions of the policy money.

Held (reversing the decision of the Court of Session, Lord Guest dissenting): there was a trust for all three beneficiaries, so that the deceased never had an interest in the assets in question, and they were exempt from aggregation.

Baytrust Holdings Ltd *v.* CIR
Thos Firth & John Brown (Investments) Ltd *v.* CIR

In the High Court of Justice (Chancery Division) – March 23rd, 1971

(Before Mr Justice PLOWMAN)

Stamp duty – Conveyance or transfer on sale – Acquisition of capital in controlled company – Transfer to controller's shareholders – Transfer of trade investments to subsidiary – Whether reconstruction – Amount of duty on increase of capital – Amount of duty on transfer of shares to new company – Finance Act 1927, section 55 – Finance Act 1930, section 42 – Companies Act 1948, section 26.

Thos Firth and John Brown Ltd had a nominal capital of £12 million in ordinary shares of £1 each, and £9,625,000 were issued. It also had issued redeemable debenture stock in excess of £2½ million. It was a holding company, and its main assets were shares in various subsidiary and associated companies engaged in the making and manipulation of steel. Included among the subsidiaries was Nitralloy Ltd, which later changed its name to Baytrust Holdings Ltd. Its trade investments were in excess of £20 million. Included in this last-mentioned figure was £10,000 representing the value of shares in Nitralloy which had an issued capital of £5,000 in £1 shares, all of which were beneficially owned by Thos Firth. The £20

million also included: (i) £402,596 representing the aggregate value of a minority holding of 281,960 ordinary shares in British Acheson Electrodes Ltd, and a minority holding of 109,016 ordinary shares in High Speed Steel Alloys Ltd; and (ii) a sum in excess of £3 million on deposit at a bank.

A new company, Thos Firth & John Brown (Investments) Ltd (the new company) was formed on November 6th, 1963, with a nominal capital of £100 divided into 200 shares of 10*s* each. The two signatory shares were signed for by solicitors' clerks. On November 7th, 1963, Thos Firth and the new company entered into a written agreement which recited that Thos Firth was the beneficial owner of all the shares in British Acheson and High Speed; and that it was intended to transfer them to Nitralloy at their book value of £402,596 in exchange for the same number of shares. The agreement also recited the share capital of the new company as above, and stated that none of it had been issued; and recited further that Thos Firth was desirous of carrying through a scheme for the reconstruction of that company in the manner thereinafter appearing. The agreement provided for Thos Firth to sell to Nitralloy the shares in British Acheson and High Speed at their book value of £402,596 in exchange for the same number of fully paid shares in Nitralloy, and for the sale to the new company of all the 5,000 shares in Nitralloy, and also the 402,596 shares to be issued by Nitralloy to Thos Firth together with £3,437,404 in cash. The consideration to be paid by the new company was £3,850,000 in the form of 7,700,000 ordinary shares of 10*s* each in the new company, which were to be issued to the shareholders of Thos Firth at the direction of the latter.

The foregoing provisions were conditional upon (*a*) the passing by Thos Firth of certain resolutions, one of which was a special resolution for the reduction of its capital; (*b*) the approval by the High Court of the reduction. The requisite conditions were satisfied on November 29th, 1963 and December 16th, 1963, respectively. By clause 6 of the agreement Thos Firth and the new company were to procure the increase of the share capital of the latter to not less than £3,850,000 by the creation of not fewer than 7,699,800 additional shares. On completion Thos Firth was to deliver to the new company a banker's draft for £3,437,404 and transfers of the 402,596 shares in Nitralloy; and against such delivery the new company was to allot and issue the above-mentioned 7,700,000 of new company shares to the shareholders in Thos Firth. The whole scheme was completed on February 10th, 1964.

It was contended for the Revenue that the scheme was not a scheme for the reconstruction of Thos Firth within section 55 of the Finance Act 1927; that the shares in British Acheson and High Speed were not part of the undertaking of Thos Firth; that as the transfer of the 402,596 shares in Nitralloy to Thos Firth was not to the latter as beneficial owner, section 55 (1) (*c*) (i) was not satisfied; and that the 5,000 shares in Nitralloy were not in the beneficial ownership of Thos Firth at the time of the transfer, and so did not satisfy section 42 of the Finance Act 1930.

It was contended on behalf of Baytrust (Nitralloy) and the new company that the scheme was a scheme of reconstruction of Thos Firth, as defined by section 55 of the Finance Act 1927; that the shares in British Acheson and High Speed were a part of the undertaking of Thos Firth, in that 'undertaking' was equivalent to 'gross assets'; that the transfer of the 402,596 new shares in Nitralloy was a transfer which satisfied section 55 (1) (*c*) (i) in that the sale was conditional on the reduction of the capital of Thos Firth, by November 29th, 1963, but that the reduction did not take effect until February 10th, 1964; that all the original 5,000 shares in Nitralloy were in the beneficial ownership of Thos Firth at the time of the transfer, so that section 42 of the Finance Act 1930 was satisfied; and that the transfers of the British Acheson and High Speed shares were exempt by the same section.

Held: (i) the scheme was not a scheme of reconstruction, because the new company was not going to carry on the same business as that of Thos Firth; (ii) the shares in British Acheson and High Speed were not a part of the business of Thos Firth, and were therefore not a part of the latter's undertaking for the purpose of section 55; (iii) section 55 required that Thos Firth should take the 402,596 new shares of Nitralloy as beneficial owner, and that stipulation had not been satisfied; (iv) the shares in the new company, which were held by Thos Firth before the new company's increase of capital, were not in the beneficial ownership of Thos Firth at the time of the transfer of the Nitralloy shares to the new company because of the subscriber shares.

CIR *v.* Stenhouse Holdings Ltd

In the House of Lords – December 16th, 1970

(Before Lord Reid, Lord Morris of Borth-y-Gest, Lord Guest, Lord Upjohn and Lord Donovan)

Corporation tax – Income tax – Dividends out of pre-1966–67 profits – Increase in dividend in 1965–66 – Income tax on distributions made in 1966–67 – Whether tax on increase of 1965–66 dividends included – Finance Act 1965, sections 47, 48, 83, 85, Schedule 11, paragraph 1 (a), Schedule 12, paragraph 1 (a).

The company paid dividends in 1965–66 in excess of the standard amount prescribed by section 83 of the Finance Act 1965, which directs that such excess is to be brought into account under section 47 (3) as if it were paid on the first day of 1966–67. The company claimed relief, in relation to distributions made in or after 1966–67, for income tax borne in earlier years of assessment.

It was contended for the company that the income tax on those distributions included income tax paid on the section 83 excess. The Special Commissioners decided against the company.

Held (affirming the decision of the Court of Session): the excess was treated by section 83 as if it were dividends paid in 1966–67, and the income tax on it fell to be included in the income tax paid by the company on distributions made in that year in calculating the one-year surplus under section 85.

BSC Footwear Ltd *v.* Ridgway

In the House of Lords – May 5th, 1971

(Before Lord Reid, Lord Morris of Borth-y-Gest, Lord Guest, Lord Dilhorne and Lord Pearson)

Income tax – Trading stock – Valuation – Stock unsold at end of period – Whether replacement cost wholesale to be taken – Or cost or market value retail – Whether long-established practice should be disturbed – Overhead expenses – Income Tax Act 1952, section 127.

The company, a shoe retailer, had to keep large stocks and at the end of every trading period it had on hand a number

of shoes equal to about one-third of the number sold during the period. Shoes were purchased by the company at a price calculated by reference to a 'mark-up' which was fixed by the directors, and was the percentage margin between the wholesale buying price and the retail selling price that would produce the rate of profit considered appropriate. Some of the shoes in hand at the end of the period would be sold at reduced prices in the January sales, and some at still lower prices subsequently.

The practice followed by the company for at least thirty years was to value the stock unsold at the end of a trading period at replacement value, i.e., the wholesale cost. For the year of assessment in question the Revenue claimed that the stock unsold at the end of the relevant accounting period should be brought into account for tax purposes at cost or at the then retail price less directly referable expenses such as seller's commission. The Special Commissioners decided in favour of the Revenue.

Held (affirming the judgment of the Court of Appeal): the Special Commissioners' decision was correct.

FINANCE AND COMMERCE

Oliver Rix Reorganize Group Accounting Structure

WHEN losses in two separate divisions of a six-division group only become apparent at the stage of detailed audited accounts, there are some changes to be made. The directors of Oliver Rix Ltd were faced with such a situation earlier this year when, after a year of gradual improvement in conditions in the motor trade, there was confidence that the improvement was being reflected in the internal monthly accounts of the group.

There was, in the words of Mr J. F. Nash, the chairman, 'every confidence that the overall results would show a satisfactory improvement on those for 1969'. But detailed audited accounts available early in March showed exceptional losses, in two of the group's divisional operations, that had been unknown to the board and senior management during the year.

It was immediately decided that the bulk of the losses – totalling £204,172 – must be provided for in full against 1970 profits, and in addition, provision had to be made for identifiable losses applicable to 1969 totalling £34,173. The losses took place at Liverpool in the garage and commercial vehicles division and at Thirsk in the agricultural and industrial division.

Management action was taken to rectify the mismanagement at both centres, and internal accountancy staff changes were made.

Safeguard

As an additional safeguard Messrs Peat, Marwick, Mitchell & Co, auditors to the majority of the group's subsidiaries, were instructed to carry out an investigation to ensure that there were no other such discrepancies, that the reorganized group accounting structure was satisfactory, and that future internal monthly accounts would be accurate.

In the agricultural and industrial division which showed a pre-tax loss of £34,157 for the year against a previous profit of £60,552, there was an exceptional loss in the A. C. Bamlett subsidiary. It arose out of the escalation of development and production costs on new products, under-recording of development costs, and the cost of rectifying the poor quality of manufacture of goods in stock. Appointment of new senior management personnel is 'expected to avoid a recurrence of such happenings'.

In the garages and commercial vehicles division, the situation was more complicated. Overall profits of the division improved from £187,917 to £266,185, despite a loss of £96,180 sustained by the Watson group of companies in Liverpool. The loss arose on the service and stores division in Oldham Street, Liverpool.

Following a compulsory purchase order, half the premises were vacated in mid-1970, and negotiations for the sale are now complete. The root cause of the loss was the disturbance before and after vacation. On discovery of the loss, the board decided to close down and sell the remainder of the premises to the Liverpool Corporation.

Operations have been concentrated on lower cost locations already owned by the group. Sales of the Oldham Street and other properties will result in profits of approximately £140,000, but since proceeds had not been received by the year-end, no part of the anticipated profit has been included in the 1970 figures.

Transport loss

Another division to fall on hard times was the transport division which showed a loss of £22,342, against a 1969 profit of £19,802; but in this case the trouble was the familiar one of steeply increasing costs not being offset by a corresponding increase in earnings.

In the latter part of last year, consultants were employed to reappraise the transport operations. Recommendations were called for on day-to-day management and operation; and also on the future pattern of the operation and on the definition of sectors which could be expected to give improved profitability in the light of the business's capabilities.

As a result, the division is concentrating on more specialized forms of traffic related to the geographical location of the business and the vehicles employed. Here again, senior management has been changed and results to date suggest that the current year should see a return to profits.

During the current year the Oliver Rix group has been

extended by the acquisition of F. W. Wheatley Securities, and the Peterborough Die Casting Co, Wheatley, manufacturing trailers.

Manufacturing division

Mr Nash comments that the acquisitions 'will enable the group to set up a manufacturing division incorporating the existing similar activities with all the necessary management, financial, costing, and operating controls that such an expansion makes possible'.

The bulk of the group's business has in the past been in car and commercial vehicle distributing. The analysis of turnover and profit for 1970 and 1969 included in this week's reprint from the accounts, shows the extent to which the main interests dominate the results.

Three firms of accountants are concerned as auditors. The Oliver Rix Ltd auditors are Slater, Dominy & Swann, of Cambridge, who also audit some of the main subsidiaries. Peat, Marwick, Mitchell & Co, as already mentioned, are auditors to other subsidiaries, operating from the firm's Stoke-on-Trent office. The third firm involved as auditors to subsidiaries is Keens, Shay, Keens & Co, of Luton.

The geographical spread of the group is considerable – from Wisbech in the east to Liverpool in the west; and from Thirsk in the north to Hitchin in the south.

OLIVER RIX LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31 December 1970

	Notes	1970 £	1969 £
Turnover	1	**32,706,207**	*31,581,567*
Profit before interest and taxation	2	**755,646**	*789,769*
Interest	3	**419,132**	*372,390*
Profit before taxation		**336,514**	*417,379*
Taxation	4	**160,910**	*182,841*
Profit after taxation		**175,604**	*234,538*
A loss of £3,563 (*1969: £1,199*) is dealt with in the accounts of Oliver Rix Limited			
Profit attributable to minority interests		**2,197**	*9,395*
Profit attributable to Oliver Rix Limited		**173,407**	*225,143*
Transfer to Loan Redemption Sinking Fund Account	10 & 16	**4,284**	*4,284*
		169,123	*220,859*
Retained profits of previous years		**200,219**	*197,411*
Adjustments relating to previous years and exceptional items	6	**(34,173**	*(11,962)*
		166,046	*185,449*
Profit available for distribution		**335,169**	*406,308*
Dealt with as follows:			
Dividends paid and proposed (gross)			
5% Interim paid on Ordinary Shares (*1969: 5%*)		**101,394**	*100,599*
2½% Final proposed on Ordinary Shares (*1969: 5%*)		**51,858**	*100,623*
		153,252	*201,222*
7% Cumulative Preference Shares	15	—	*4,867*
		153,252	*206,089*
Retained profits carried forward		**181,917**	*200,219*
		335,169	*406,308*

OLIVER RIX LIMITED

NOTES ON CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31 December 1970

1 Turnover
This represents the aggregate value of goods sold and services provided by the Group to outside customers, excluding purchase tax on new vehicles.

2 Profit before interest and taxation	1970 £	1969 £
This profit includes:		
(a) Investment income		
Quoted	**8,332**	*8,784*
Unquoted	**6,674**	*7,957*
	15,006	*16,741*
(b) Investment grants	**2,338**	*10,110*
(c) Rents from properties	**22,314**	*25,939*
and is after charging:		
(d) Emoluments of directors of Oliver Rix Limited (note 5)		
As directors	**7,000**	*7,000*
For management	**27,276**	*30,500*
	34,276	*37,500*
Compensation for loss of office	**5,000**	*5,000*
	39,276	*42,500*
(e) Depreciation (note 9)	**271,664**	*238,992*
(f) Auditors' remuneration and expenses	**23,612**	*22,270*
(g) Development expenditure written off	**488**	*7,014*
(h) Hire of plant and machinery	**21,083**	*2,285*
(i) Loss (profit) on sales of quoted investments	**1,288**	*(5,274)*

3 Interest		
Payable		
Oliver Rix Limited 7¾% Debenture Stock	**77,500**	*77,500*
Oliver Rix Limited 7¼% and 8% Loan Stocks	**83,045**	*72,316*
Loans repayable after 31 December 1975	**84,334**	*72,298*
Loans repayable before 31 December 1975	**2,126**	*9,769*
Taxation	**4,802**	*3,635*
Bank loans and overdrafts	**192,249**	*171,971*
	444,056	*407,489*
Receivable	**24,924**	*35,099*
	419,132	*372,390*

4 Taxation		
United Kingdom corporation tax at 42½% (*1969: 45%*) on the profit of the year payable from 1 October 1971	**160,910**	*182,841*

5 Directors' emoluments		
Chairman	**5,000**	*5,000*
Highest paid director	**11,685**	*11,685*
Number of other directors whose emoluments were within the range:		
Not more than £2,500	**three**	*three*
£2,501 to £5,000	**one**	*one*
£5,001 to £7,500	**one**	*one*

6 Adjustments relating to previous years and exceptional items		
Taxation	**(30,000)**	*11,962*
Exceptional production costs	**40,000**	—
Bad debts and other adjustments	**24,173**	—
	34,173	*11,962*

OLIVER RIX LIMITED

CONSOLIDATED BALANCE SHEET
as at 31 December 1970

	Notes	£	1970 £	£	1969 £
Fixed Assets	7		5,040,176		4,803,159
Investments	10		419,928		437,600
Current Assets					
Stock and work in progress	11	3,997,704		3,616,104	
Consignment deposits	12	382,402		368,262	
Debtors and prepayments	13	3,539,319		3,361,804	
Cash and bank balances		264,036		340,145	
		8,183,461		7,686,315	
Less:					
Current Liabilities					
Creditors and accrued charges		3,523,646		3,228,344	
Bank loans and overdrafts	14	2,926,533		2,481,701	
Corporation tax on current profits		146,987		187,166	
Corporation tax on previous years' profits		138,015		317,523	
Proposed dividend—gross	Page [776]	51,858		100,623	
		6,787,039		6,315,357	
Net Current Assets			1,396,422		1,370,958
			6,856,526		6,611,717
Financed by:					
Share Capital	15		2,074,316		2,012,462
Reserves	16		1,601,750		1,612,921
Retained Profits	Page [776		181,917		200,219
Shareholders' Funds			3,857,983		3,825,602
Minority Interests	20		45,073		62,087
Loan Capital	17		2,909,470		2,724,028
Deferred Taxation	18		44,000		—
			6,856,526		6,611,717

J. F. Nash } Directors
J. M. Riches

OLIVER RIX LIMITED

COMPANY BALANCE SHEET
as at 31 December 1970

	Notes	£	1970 £	£	1969 £
Interest in Subsidiary Companies	19		7,328,092		7,683,181
Investments	10		215,000		220,360
Current Assets					
Stock	11	6,986		470	
Debtors and prepayments	13	126,083		118,006	
Bank balance		6,057		4,936	
		139,126		123,412	
Less:					
Current Liabilities					
Creditors and accrued charges		201,850		245,820	
Bank loans and overdrafts	14	809,279		1,116,065	
Corporation tax on current profits		1,700		2,500	
Corporation tax on previous years' profits		500		7,883	
Proposed dividend—gross	Page [776]	51,858		100,623	
		1,065,187		1,472,891	
Deficiency of Net Current Assets			(926,061)		(1,349,479)
			6,617,031		6,554,062
Financed by:					
Share Capital	15		2,074,316		2,012,462
Reserves	16		2,099,838		2,067,875
Retained Profits			107,266		107,564
Shareholders' Funds			4,281,420		4,187,901
Loan Capital	17		2,335,611		2,366,161
			6,617,031		6,554,062

J. F. Nash } Directors
J. M. Riches

AUDITORS' REPORT TO THE MEMBERS OF OLIVER RIX LIMITED

In our opinion, based on our examination and the reports of the auditors of certain subsidiaries not audited by us, the accounts set out on page [776 to 779] comply with the Companies Acts 1948 and 1967 and, so far as concerns the members of the company, give a true and fair view of the state of affairs of the company at 31 December 1970 and of the state of affairs and profit of the group for the year ended on that date.

Slater, Dominy & Swann
Chartered Accountants
Cambridge
29 March 1971

OLIVER RIX LIMITED

Notes on the Balance Sheets

7 Fixed Assets

	Cost or valuation 31.12.69 £	Additions at cost in 1970 £	Disposals in 1970 £	Cost or valuation 31.12.70 £	Accumulated depreciation 31.12.70 £	Net book amount 31.12.70 £	*Net book amount 31.12.69 £*
Freehold land and buildings at valuation							
in 1967	6,750		6,750			—	*6,750*
1965	293,750			293,750		293,750	*293,750*
1964	1,724,293			1,724,293	561	1,723,732	*1,723,732*
1962	50,159			50,159		50,159	*50,159*
1961	157,850			157,850		157,850	*157,850*
at cost	1,155,754	203,241	1,521	1,357,474	2,499	1,354,975	*1,153,255*
Leasehold land and buildings							
Long leaseholds over 50 years at valuation							
in 1964	256,972			256,972	3,638	253,334	*253,512*
at cost	153,952	5,025		158,977	6,702	152,275	*147,287*
Short leaseholds under 50 years at valuation							
in 1961	2,750			2,750	1,204	1,546	*1,546*
at cost	51,368	3,102	18,140	36,330	21,612	14,718	*27,229*
Plant, vehicles and equipment at cost	1,967,206	529,253	378,224	2,118,235	1,080,398	1,037,837	*988,089*
	5,820,804	740,621	404,635	6,156,790	1,116,614	5,040,176	*4,803,159*

8 Future Capital Expenditure

	1970 £	*1969 £*
Capital expenditure for which contracts have been placed:		
Oliver Rix Limited	nil	*nil*
Subsidiary companies	67,750	*82,500*
Capital expenditure authorised by the directors, for which no contracts have been placed:		
Oliver Rix Limited	nil	*nil*
Subsidiary companies	10,000	*31,500*

9 Depreciation

Freehold and long leasehold properties are not currently being written off.
Short leasehold properties are being written off in equal instalments over the remaining periods of the leases.
Plant, vehicles and equipment are being written off at fixed rates per annum by reference to expected useful life.

10 Investments

	1970 £	*1969 £*
Oliver Rix Limited		
Unquoted at cost and as valued by the directors	215,000	*220,360*
Subsidiary companies		
Sinking Fund policy—surrender value £28,417	30,009	*25,725*
Other investments		
Quoted—market value £99,460 (*1969: £121,248*)	128,919	*145,515*
Unquoted at cost and as valued by the directors	46,000	*46,000*
	204,928	*217,240*
Total for the Group	419,928	*437,600*

OLIVER RIX LIMITED

Notes on the Balance Sheets continued

11 Stock and work in progress

Stock and work in progress has been valued at the lower of cost and net realisable value.

12 Consignment deposits

Included under consignment deposits are payments made to manufacturers and distributors outisde the Group, less amounts received from dealers, in respect of vehicles on consignment.

13 Debtors and prepayments

This item includes a temporary loan of £3,600 made during the year to a director.

14 Bank loans and overdrafts

The aggregate of secured bank loans and overdrafts is £671,248 (*1969: £235,712*).

15 Share Capital

	No. of Shares	1970 £	*No. of Shares*	*1969 £*
The share capital of Oliver Rix Limited comprises Ordinary Shares of 5p (1/-) each				
Authorised	65,000,000	3,250,000	*65,000,000*	*3,250,000*
Issued	41,486,321	2,074,316	*40,249,230*	*2,012,462*

The terms on which the 7¾% Convertible Unsecured Loan Stock 1988-93 may be converted into Ordinary Shares are set out in note 17. The conversion which took place during 1970 is referred to in item 8 (c) of the Directors' Report.

Preference share capital was redeemed in 1969 by the issue of 8% Unsecured Loan Stock 1994-99 of Oliver Rix Limited.

16 Reserves

	Share Premium £	Capital £	Investment £	Loan Redemption Sinking Fund £	Total £
Group					
Balance at 1 January 1970	1,967,875	4,219	100,000	25,725	2,097,819
Transfer from profit and loss account				4,284	4,284
Premium on issue of ordinary shares	31,963				31,963
Profits, less loss, on sales of land, buildings and goodwill		6,528			6,528
Profit on sale of subsidiary company		8,184			8,184
	1,999,838	18,931	100,000	30,009	2,148,778
Less: Net excess of purchase price over book value of net assets of subsidiary companies acquired:					
Before 1 January 1970	484,898				
During year	62,130				
	547,028				547,028
Balance at 31 December 1970	1,452,810	18,931	100,000	30,009	1,601,750
Oliver Rix Limited					
Balance at 1 January 1970	1,967,875		100,000		2,067,875
Premium on issue of ordinary shares	31,963				31,963
Balance at 31 December 1970	1,999,838		100,000		2,099,838

OLIVER RIX LIMITED

Notes on the Balance Sheets continued

	1970 £	1969 £
17 Loan Capital		
Oliver Rix Limited		
7¾% Debenture Stock 1987-92	1,000,000	1,000,000
7¾% Convertible Unsecured Loan Stock 1988-93	798,483	833,334
7¾% Unsecured Loan Stock 1988-93	17,426	—
8% Unsecured Loan Stock 1994-99	247,702	244,827
	2,063,611	2,078,161
Unsecured loan at 1½% over bank rate, repayable at £16,000 p.a. from 1968 to 1987	272,000	288,000
	2,335,611	2,366,161

Subsidiary Companies
Loans repayable either wholly or in part after 31 December 1975:

Secured loans of £10,000 and over				
Rate of interest	Repayment Terms			
8¼% p.a.	£500 p.a.	from 1970 to 1989 plus the balance in 1989	39,450	39,950
6¾% p.a.	£2,624 p.a.	from 1970 to 1989 plus the balance in 1989	207,375	210,000
4% p.a.	£4,000 p.a.	from 1966 to 1980	40,000	44,000
5% p.a.	£10,350 p.a.	from 1970 to 1990	199,238	—
Secured loans of less than £10,000 at interest rates up to 9% repayable over various periods up to 1981			34,070	37,070
Unsecured loans, interest free, repayable over various periods			7,760	7,541
Loans wholly repayable before 31 December 1975:				
Secured loans			26,839	11,600
Unsecured loans			19,127	7,706
			573,859	357,867
Total for the Group			2,909,470	2,724,028

The 7¾% Convertible Unsecured Loan Stock of Oliver Rix Limited is convertible as to 50% thereof into fully paid Ordinary Shares of 5p (1/-) each and 50% into 7¾% Unsecured Loan Stock, both of Oliver Rix Limited.

This right may be exercised in whole or in part by giving notice in the prescribed manner during the period from 20 May to 20 June inclusive in the following years and on the following basis:

Year	Nominal amount of Loan Stock to be converted into each Ordinary Share
1971	10⅝p (2s 1½d)
1972	11¼p (2s 3d)
1973	11⅞p (2s 4½d)
1974	12½p (2s 6d)

OLIVER RIX LIMITED

Notes on the Balance Sheets continued

18 Deferred Taxation

The amount of £44,000 represents taxation at 42½% which is deferred as a result, in the main, of depreciation claimed for taxation purposes being greater than that provided in the accounts.

19 Interest in Subsidiary Companies	1970 £	1969 £
Shares at cost	5,571,301	5,481,156
Amounts receivable including gross dividends	1,760,322	2,253,871
	7,331,623	7,735,027
Amounts payable less gross dividends	3,531	51,846
	7,328,092	7,683,181

20 Principal trading subsidiary companies

The principal trading subsidiary companies are shown on pages 20/21*. They are all incorporated in the United Kingdom with the exception of Oliver Rix (Nederland) N.V. which is incorporated in the Netherlands. In addition, all issued classes of shares are wholly owned by Oliver Rix Limited with the exception of C. Melbourne & Co. Limited's preference share capital which is 2% owned.

There is also a number of subsidiary companies incorporated in the United Kingdom whose trading is not significant and which have not been shown on pages 20/21* in order to avoid particulars of excessive length. They are wholly owned with the exception of Northern Commercial Vehicles Limited's ordinary share capital which is 98·26% owned.

21 Foreign currency

This has been converted at the rate ruling at 31 December 1970.

22 Contingent liabilities

Oliver Rix Limited has given cross guarantees as security for bank advances for certain of its subsidiary companies.

[* Not reproduced.]

Analysis of Turnover and Profit before interest and taxation (extracted from the directors' report)

	1970 Turnover %	1970 Turnover £'000	1970 Profit %	1970 Profit £'000	1969 Turnover %	1969 Turnover £'000	1969 Profit %	1969 Profit £'000
Cars and Commercial Vehicles	83	27,270	68	513	84	26,573	60	475
Agricultural and Industrial	9	3,082	12	87	8	2,827	13	101
Factoring	6	1,803	20	154	6	1,687	21	167
Transport and Removal	2	528	(2)	(15)	2	468	3	25
Insurance Other Interests	—	23	2	17	—	26	3	22
	100	32,706	100	756	100	31,581	100	790

CITY NOTES

DEMANDS that the Chancellor of the Exchequer should quickly take the reinforcement action that his spring Budget left open are growing stronger. The National Institute of Economic and Social Research has joined in the clamour.

There is an uncomfortable feeling that the Government has become side-tracked – or one-tracked – into concentration on the Common Market, and because of that, considers that the home economy will have to look after itself until the Common Market deed has been done. If that is a wrong impression, then the Government needs to correct it; and if it is a correct impression then the Government needs to change it.

The equity market's retreat from the 400 mark in the FT Index was prompted by the view that anticipation of Government reinforcement of the spring Budget was running too high. If, as is feared, the reinforcement may not arise until the autumn at the earliest, then the retreat will almost certainly be proved justified.

There are people in industry who doubt whether the much foretold economic re-expansion will develop in the second half of this year without some definite encouragement being provided a good deal sooner than the Government is thought to consider necessary.

* * * *

ANNOUNCEMENTS by major industrial groups exert considerable influence on City, and particularly stock-market, sentiment. Far from encouraging reports from ICI for one quarter, and Courtaulds for twelve months, recently deepened the gloom that was then settling on the equity market. More recently one-quarter's results from BP and the House of Fraser cheered the stock-market on what was already a brighter day.

It is odd how company news invariably seems tuned to the market mood. In a period of ebb and flow such as is currently being experienced – and has been experienced for over a year – it frequently transpires that good news comes with the flow, and poor with the ebb.

* * * *

THE Border & Southern Stockholders Trust has hit upon another variant in the investment trust theme of raising new money without having to pay for it in terms of having to pay dividend or interest on the capital. The Trust is offering convertible ordinary shares of half the nominal value of the existing equity at a price something more than half the present equity's market level. The convertibles do not rank for dividend until 1978 when each two shares will be converted into one true ordinary share, with holders entitled to subscribe for one additional ordinary share for every two convertible originally held. In other words, the new shares are dividend deferred until 1978 with half the price paid now and half in 1978.

* * * *

YORKSHIRE GENERAL Life Assurance Co is issuing one of the most comprehensive appraisals of partnership assurance yet published by an insurance company. Yorkshire Insurance, before its merger with General Accident, pioneered partnership assurance schemes and is now bringing these schemes up to date to take account of the 1968 Finance Act and subsequent legislation.

A new booklet explains the financial problems facing a partnership on the death of a partner and puts forward three possible solutions. A supplementary leaflet intended for the professional adviser and specialist insurance broker examines the more complicated aspects of estate duty and taxation in more detail.

Particularly interesting is the proposal for larger partnerships of four or more members which uses only one group life policy; this shows considerable advantages over schemes requiring a multiplicity of policies, with all the complications involved.

RATES AND PRICES

Closing prices, Monday, June 7th, 1971

Tax Reserve Certificates: (26.4.71) Companies 4½%; 2½% surrendered for cash; Personal 4%

Bank Rate

Nov. 9, 1967	6½%	Feb. 27, 1969	8%
Nov. 18, 1967	8%	Mar. 5, 1970	7½%
Mar. 21, 1968	7½%	April 15, 1970	7%
Sept. 19, 1968	7%	April 1, 1971	6%

Finance House Base Rate –June 1st, 1971. 7%

Treasury Bills

April 2	£5·8293%	May 7	£5·6840%
April 8	£5·7849%	May 14	£5·6517%
April 16	£5·7561%	May 21	£5·6276%
April 23	£5·7081%	May 28	£5·6318%
April 30	£5·6844%	June 4	£5·6090%

Money Rates

Day to day	4⅞–6%	*Bank Bills*	
7 days	4¼–7%	2 months	7–7⅛%
Fine Trade Bills		3 months	7–7⅛%
3 months	7½–8%	4 months	7–7⅛%
4 months	7½–8%	6 months	7 1/16–7 3/16%
6 months	7¾–8%		

Foreign Exchanges

New York	2·4193	Frankfurt	8·5275
Montreal	2·4560	Milan	1508·90
Amsterdam	8·5870	Oslo	17·2075
Brussels	120·08	Paris	13·3640
Copenhagen	18·1265	Zürich	9·8895

Gilt-edged

Consols 4%	43⅞	Funding 6½% 85–87	81¼
Consols 2½%	26⅝	Savings 3% 65–75	88½
Conversion 3½%	38	Treasury 9% 1994	95⅝
Conversion 5¼% 1974	96 11/16	Treasury 6½% 1976	98½
Conversion 6% 1972	100⅛	Treasury 3½% 77–80	74¼
Funding 3½% 99–04	43½xd	Treasury 3½% 79–81	73¼
Funding 4% 60–90	98	Treasury 5% 86–89	66¾
Funding 5¼% 78–80	83½	Treasury 5½% 08–12	62⅜
Funding 5½% 82–84	80¾	Treasury 2½%	27⅛
Funding 5¾% 87–91	71⅜	Victory 4%	96¾
Funding 6% 1993	71⅜	War Loan 3½%	37½

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Assisted by J. P. MERVIS, B.A., LL.B.(RAND)

Taxation Editor: R. M. BRAMWELL, LL.M.(LOND.)

Weinberg is the standard work on take-overs and mergers. Previously entitled *Take-Overs and Amalgamations*, the third edition incorporates all the important developments that have occurred in the law and rules of practice since the second edition was published in 1967.

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Books

Project Control Standards

by DICK H. BRANDON and MAX GRAY.

Auerbach Publishers Inc. £5.

Written with the requirements of the data processing manager in mind, this book deals with the philosophy of system development and the problems of project control in the computer field.

It assumes a fair degree of familiarity with computer techniques and application, and it should not be tackled by the faint-hearted or those who are making their first acquaintance with electronic data processing methods. For the experienced computer hand, it provides a valuable guide to the wider aspects of system development in this increasingly complex and influential area of management information.

Revenue Law

Fourth edition by BARRY PINSON, LL.B.

Sweet & Maxwell, £5·50, paperback £2·90.

The beauty of this compact review is twofold: the author has the knowledge and skill to write a far lengthier tome, but he has chosen to make a selection of those points best calculated to provide a sound introduction on the basis of which the reader can with confidence make further progress.

The quality of this production is evidenced by a table of cases (compendiously referenced to various law reports) approaching the 1,000 mark, with about twice that number of references to the statutes from 1677 to the Finance Act 1970. Yet this learning sits lightly on the text which is divided into paragraphed passages short enough to be assimilated with ease, and interspersed with examples which epitomize case law or statute law.

The reviewer's order of preference for the contents of this work may be expressed as follows: stamp duty; estate duty; taxes on income (the coverage of taxes on capital gains is brief); tax and estate planning; betterment levy. It is likely that those who consider themselves knowledgeable in a particular tax field will have that knowledge widened through reading about related tax disciplines. However, this book seems to match perfectly the requirements of a mature mind already acquainted with legal thought but making his first serious venture into the thickets of direct revenue collection.

Problems of a Mature Economy

by F. V. MEYER, D. C. CORNER and J. E. S. PARKER.

Macmillan, £5, Papermac £2·90.

It is becoming something of a vogue for academic departments to produce their own textbooks. This particular volume has been compiled by three members of the economics department of the University of Exeter, and it reveals that students in that department cannot complain of a lack of solid teaching. This 'Papermac' comprises 627 pages of relatively small type, which are divided between four main areas of economic discussion concerning the development – or lack of it – of the British economy during the 1950s and 1960s.

Thus Part I, of 121 pages, considers the relationship between the theory of development of firms and companies on the one hand, and the performance of the national economy on the other. Part II is double the length, and deals with the labour and capital markets, then with industrial case studies, in particular monopoly and mergers. Part III, of nearly 100 pages, looks at the distribution of the national income between the factors of production; Part IV devotes nearly 150 pages to some aspects of Britain's external relations.

The book is very well documented with numerous references and, in these days of publishing, represents good value for money. The authors are well-informed and their analysis is very thorough; the book is primarily for honours economics students, but lesser mortals can browse with profit in its pages.

Education and the State

Second edition by E. G. WEST.

Institute of Economic Affairs, £2·50, paperback £1·25.

This book, which questions the whole basis of the State-financed educational system, first appeared five years ago and provoked considerable discussion. The new edition, which appears in the centenary year of Forster's Education Act, has been enlarged by the addition of a 10,000-word essay by the author.

For most readers, unfamiliar with the thesis developed by Professor West, main interest in his study will stem from the surprise that anyone should question the entire basis of Britain's primary and secondary school system. The recent advocacy by the Institute of Economic Affairs of a voucher system to pay school fees is seen to be founded not only on views of present-day society but upon proposals made a century ago.

RECENT PUBLICATIONS

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RANKING, SPICER & PEGLER'S EXECUTORSHIP LAW AND ACCOUNTS, 21st edition by K. S. Carmichael, F.C.A., F.T.I.I., xliv+600 pp. 8½×5½. HFL (Publishers), £3·25.

EVERY MAN'S OWN LAWYER, 70th edition by a Barrister-at-Law. 9½×6. Every Man's Own Lawyer Publishing Co, £5·25.

COMPANY PENSION SCHEMES, by Michael Pilch and Victor Wood. xviii+244 pp. 9×5½. Gower Press, £4·25.

These books may be obtained from, or through, Gee & Co (Publishers) Ltd, The City Library, 151 Strand, London WC2R 1JJ.

Outlook for Company Law

IN the event of Britain joining the Common Market, lawyers and company administrators will have a particularly significant part to play. With this in mind, last week's annual conference of the Bar Association for Commerce, Finance and Industry, in conjunction with the Chartered Institute of Secretaries, adopted as its theme 'United Kingdom company law and its possible future development against the European background'.

In a message of welcome to the conference, Mr Geoffrey Rippon, Q.C., M.P., Britain's principal Common Market negotiator, said that the United Kingdom was today closer than it had ever been to accession to the European Community. Such accession would open up opportunities which British industrial and commercial undertakings should not be slow to grasp, and a new political climate in Europe would stimulate progress and prosperity.

Together with the development of new company structures, the European community was continuing the process of harmonizing the company law of its member-States.

Quality of management

Opening the conference, the President of BACFI, the Rt Hon. Lord Shawcross, P.C., Q.C., was critical of the quality of some company managements. Boards of directors were in many cases virtually self-perpetuating, and whilst a good board was likely to retain its standards, an indifferent board might progress through mediocrity to positive badness. It was to this mediocre or downright bad management that he attributed a substantial measure of Britain's relatively poor industrial performance.

Lord Shawcross also claimed that the City Take-over Panel, of which he is chairman, was working reasonably well, and said that he would like to see a similar voluntary tribunal whose purpose would be to investigate complaints by shareholders about company management.

Lord Shawcross was followed by Professor Robert Pennington, LL.D., of Birmingham University. He outlined the present system of company law in the Common Market countries, and considered that British shareholders were both better informed and more fully protected than their counterparts on the Continent. He suggested, however, that certain features of the European system might advantageously be adopted in the United Kingdom, including the German concept of a 'supervisory' board, including workers' representatives, to oversee the activities of executive directors. This, he claimed, had provided a useful channel of communication.

Rules disregarded

Speaking of the practical problems of United Kingdom company law, Mr S. J. S. Eley, F.C.I.S., described the Companies Act 1967 as a 'hybrid' statute, which had been hurriedly conceived and passed to amend both the Companies Act 1948 and the Insurance Companies Act 1958. As a result of the abolition of the exempt private company, there was now a widespread disregard of some statutory provisions; in the case of '£100 private companies' bought over the counter, the statutory records were often not kept from the very beginning, and the registrar of companies showed an unfortunate willingness to accept documents for filing which plainly did not comply with the Act.

Many of the disclosure requirements under the 1967 Act were unsatisfactory, and he suspected that there was a large element of 'disclosure for its own sake'. He doubted whether some of the information which was disclosed would be of any use to anybody at all. The disclosure requirements under section 16 were particularly unsatisfactory in that it was left to the discretion of the board of directors to decide what elements were significant or material.

Strict compliance with the requirements of section 18 concerning numbers of employees could be actively misleading in the case of seasonal businesses, and the register of directors' shareholdings created several practical problems. An account in the register of members did not prove that the person named was interested in those shares, and the definition of a joint account could lead to interests which exceeded in total the issued share capital of the company.

Following Mr Eley, Mr T. P. Curry dealt with some of the recommendations of the Jenkins Committee which were still outstanding, nine years after its report had been published. He suggested that some of these recommendations might never be put into legislation nor would ever need to be, thanks to the accountancy profession, the Stock Exchange, and the City Panel. He also criticized the fundamental error of forcing the small private company, which was in essence a partnership, into the same legislative framework as the largest companies.

There was, he said, no evidence against the creation of shares of no par value and a great deal in favour of it. Such shares might not always be politically acceptable, but they were commercially desirable and would simplify many of the present difficulties about share premiums, issue of shares at a discount, or issue for assets other than cash. Preference shares of no par value could be issued at any time according to the going rate of interest, and there would be no particular problem in determining an alternative basis for stamp duty, or in declaring dividends as an amount rather than as a rate per cent.

Improved protection

Section 210 of the 1948 Act, said Mr Curry, was not a protection for minorities alone. The section had perhaps been too narrowly construed by the Courts, and in any case it did not afford a remedy against isolated acts, or where the wrong complained of had ceased. He thought that the Courts should have power to restrain the continuance or repetition of the act complained of, and whilst this might not in itself be a major change it would have a significant effect upon the Courts' attitude. Mr Curry also spoke of the *ultra vires* rule, and said that he was not in favour of changing it; a person ought to know the sort of company he was dealing with.

Mr I. J. Fraser, M.C., Director-General of the Take-over Panel, described the take-over bid as a British invention which had evolved, like blotting paper, by mistake. Section 209 of the Companies Act 1948 was a provision originally intended to restrain litigious and troublesome minorities in an agreed merger situation, but had also proved 'an instrument of exceptional flexibility in the hands of a resolute and aggressive board'. The events of the late 1950s and early 1960s had shown some need

for regulation of take-over bids, since the aggressor could go direct to shareholders of the target company over the heads of their own board.

The City bodies which had drawn up the take-over code preferred to rely on the means at their own disposal rather than to ask for legislation. In the United States, the operations of the Securities and Exchange Commission had led to delay, expense, verbosity, and the surrender of financial initiative; there was also a lack of confidence that Whitehall could effectively administer the City, and a historical and deep-seated feeling that markets should be free from State interference. Whilst statutory authority would give the panel an official existence and a right to information, it worked at present on the 'nebulous but surprisingly effective claim that it represents the conscience of the financial community'. Those who wish to benefit from facilities of the London capital market must be deemed to know the rules.

Information not abused

Mr Fraser did not think there had been any significant level of abuse in the purchase of shares on 'inside information' of an impending bid – certainly not on the scale of a case which recently occurred in France, where a profit of 1·6 million francs was made on purchases of shares in a single company. The present law, he said, gave little guide to the conduct of parties in relation to matters of control, and the Take-over Panel had a common-sense view of what 'effective control' was. Thus, less than 30 per cent holding would seldom constitute effective control, whereas 40 per cent might be effective unless another party had a comparable holding. Between 30 and 40 per cent, it was usually necessary to take other factors into consideration.

It was a cardinal principle that in a control transaction all shareholders had the same rights, and the take-over code was a long way ahead of both law and practice in other countries. The code was not a string of statutory provisions which practitioners might be tempted to circumvent, and its distinguishing element of flexibility was best suited for the particular conditions which prevailed in the United Kingdom.

Other speakers included Dr Pieter Sanders, of the Rotterdam School of Economics, adviser to the EEC Commission on European Company Law, and Dr Clive Schmitthoff, of the City of London Polytechnic. The conference concluded with a panel discussion on 'Company Law in Britain – the way ahead', lead by Mr John Bowyer, M.A., and Mr Muir Hunter, Q.C., M.A., representing respectively the Society of Conservative Lawyers and the Society of Labour Lawyers.

Letters

Lawyers in Industry

SIR, – May I take advantage of your columns to make an appeal to any of your readers who are lawyers but who are not members of either the Bar Association for Commerce, Finance and Industry or the Commerce and Industry Group of The Law Society.

I am a solicitor who is at present completing a Master of Business Administration degree at the Cranfield School of Management. I have chosen for my thesis to make a detailed study of the role and status of lawyers in commerce and industry in England and Wales. With the co-operation of the above-mentioned organizations I will be contacting their respective members over the next few months. However, I would be particularly interested to make contact with lawyers who no longer act in a purely legal capacity, e.g., senior executives or financial advisers and who therefore may not be members of the above associations.

Yours faithfully,

ROGER H. STANWAY,

Solicitor.

c/o Cranfield School of Management, Bedford.

Recte Numerare

SIR, – Mr Jack Clayton (May 27th issue) has discovered a connection between the omission of the words *Recte Numerare* from the new *Members' Handbook* of the English Institute and the recognition, on the part of at any rate some members, that the effects of inflation must be recognized in the preparation of accounts.

The reason for the omission is no doubt much more mundane. We all know of the need for economy in Institute expenditure. Perhaps this is a gesture.

However, to suggest that accounts are only prepared *recte* if they use 'historical' figures is surely the very opposite of the truth. Only if the fact is recognized that what was a measuring rod of unvarying length is now a piece of elastic whose vagaries must be corrected, can the term *recte* be properly applied to any set of accounts.

Yours faithfully,

E. G. HILL.

Cambridge.

Company Taxation

SIR, – Mr Jack Clayton's *magnum opus* on the subject of Mr Barber's Budget in your issue of May 20th is a considerable attempt to prove that the company sector is almost being subsidized by individuals on taxation payments.

His sources of the requisite figures are the Blue Books and it is a pity that his calculations seem to produce different answers every time he looks at these. For example, his table 1 on page 660 suggests that company taxes were 16 per cent of net income in 1963 and 15 per cent in 1970. In a letter to the *Financial Times* printed on March 23rd his corresponding figures were 15 and 7 per cent. He admits

in his definitions that his figures are after deduction of investment grants and excluding taxes paid abroad. On inquiry you will probably find that his figures also exclude taxes paid on distributions by companies. I would have thought it fairly clear that if the tax on distributions is excluded then the distributions themselves should be treated as a transfer of profit to the personal sector and should not be used as part of the profit base on which taxes are calculated.

Looking at the same tables as Mr Clayton, I arrived at a figure of 27 per cent for company taxes less investment grants in 1969, which is a very different concept and much nearer to the personal rate of average tax. Even more to the point is the fact that investment grants should in my view not be deducted in full in the year of receipt but spread, say, over five years or more to cover the expected life of the asset used since they are in effect an accelerated depreciation rate.

In table 3 Mr Clayton deduces that company capital formation has gone up from 3·8 per cent in 1952 to 8·6 per cent in 1970. In discussing PAYE he recognizes the effect of inflation but ignores it in the context of company capital formation even though I would have thought it obvious that inflation requires greater availability of funds for capital replacements than would be required in a period of stable prices.

I like Mr Clayton's definition of the art of propaganda, and I would suggest that his own selectivity of facts provides as good a demonstration of this art as anything in your journal.

Yours faithfully,

Manchester. J. ROSS.

The Institute of Chartered Accountants in England and Wales

Special and Ordinary Meetings of the Council

At special and ordinary meetings of the Council held on Wednesday, June 2nd, 1971, there were present:

Mr C. Croxton-Smith, President, in the Chair; Mr A. H. Walton, Deputy President; Mr D. S. Morpeth, T.D., Vice-President; Messrs J. F. Allan, J. A. Allen, G. R. Appleyard, J. C. Bayley, Sir Henry Benson, G.B.E., Messrs L. H. Clark, D. A. Clarke, S. Dixon, P. H. Dobson, Professor H. C. Edey, Messrs S. Edgcumbe, W. W. Fea, R. W. Foad, C.B.E., E. J. Frary, J. W. G. Frith, J. P. Grenside, W. Hare, M. R. Harris, J. S. Heaton, J. A. Jackson, G. B. Judd, S. Kitchen, Sir Ronald Leach, C.B.E., Messrs M. G. Lickiss, B. A. Maynard, W. R. McBrien, E. C. Meade, W. G. Medlam, S. A. Middleton, W. Bertram Nelson, C.B.E., E. J. Newman, D. G. Richards, D. W. Robertson, J. D. Russell, K. J. Sharp, T.D., R. G. Slack, H. G. Smith, G. Tattersall-Walker, C. C. Taylor, R. P. Tovey, D. C. Urry, D. N. Walton, J. Whitehead, R. G. Wilkes, O.B.E., T.D., J. C. Montgomery Williams, R. G. Williams, E. K. Wright.

Presidential Elections

The election took place of Mr Arthur Halsall Walton as President for the ensuing year; of Mr Douglas Spottiswoode Morpeth as Deputy President; and of Mr Edmund Kenneth Wright as Vice-President. The installation speeches are reproduced elsewhere in this issue.

Appointment to the Council

Mr S. P. Wilkins, F.C.A., London, was co-opted to membership of the Council.

Appointments to Committees

The following Committees have been appointed for the year 1971–72. President *ex-officio* member of all Committees other than the Disciplinary and Investigation Committees. Deputy President *ex-officio* member of all Committees other than the Disciplinary, Investigation, and P. D. Leake Committees.

Articled Clerks' Committee

B. D. Barton, C. I. Brown (*c*), Miss E. A. Dent (*c*), P. M. Duffell (*c*), E. J. Frary, C. G. Morgan (*c*), D. Steele (*c*), J. P. Surrey (*c*), A. G. Thomas, J. Whitehead, R. G. Wilkes.

Courses Committee

D. O. Bailey (*c*), J. Bullock (*c*), J. W. G. Frith, B. J. Gibbens (*c*), B. A. Maynard, A. Pinkney (*c*), D. G. Richards, one vacancy.

Disciplinary Committee

G. R. Appleyard, B. D. Barton, C. Croxton-Smith, P. H. Dobson, J. V. Eastwood, S. Edgcumbe, R. W. Foad, J. S. Heaton, G. B. Judd, R. O. A. Keel, W. B. Nelson, K. J. Sharp, H. Gordon Smith, R. P. Tovey, D. C. Urry.

District Societies Committee

G. L. Aspell (*c*), B. E. Basden (*c*), R. W. Cox, G. S. H. Dicker (*c*), P. H. Dobson, J. F. English (*c*), J. W. Greenwood (*c*), P. J. Hughes (*c*), T. R. Keens (*c*), W. R. McBrien, S. A. Middleton, K. J. Milligan (*c*), W. Ridley (*c*), W. Shuttleworth (*c*), H. B. Singer (*c*), R. G. Slack, A. G. Thomas, D. N. Walton, R. G. Wilson.

Education Committee

Dr G. S. Brosan (Assessor), Professor H. C. Edey, J. L. Gayler (Assessor) (*c*), A. W. John, M. G. Lickiss, P. S. McDonald, (*c*) G. M. Metcalf (*c*), W. B. Nelson, C. S. Paylor (*c*), G. Tattersall-Walker, R. H. Taylor, J. M. Tyrrell (*c*), D. N. Walton, F. J. G. Whinney (*c*), R. G. Wilson.

Examination Committee

D. J. Appleton (*c*), P. W. Barrows (*c*), R. W. Cox, J. W. G. Frith, R. F. Griffiths, J. S. Heaton, M. G. Lickiss, E. J. Newman, D. F. Pratten (*c*), F. R. Reber (*c*), C. C. Taylor, R. H. Taylor, J. Whitehead.

General Purposes and Finance Committee

J. F. Allan, J. C. Bayley, Sir Henry Benson, D. A. Boothman, C. Croxton-Smith, S. R. Harding, A. W. John, G. B. Judd, Sir Ronald Leach, S. A. Middleton, H. Gordon Smith, E. K. Wright.

Internal Services Committee

D. A. Boothman, N. Charlton, D. A. Clarke, W. Hare, J. A. Jackson, R. O. A. Keel, R. G. Wilkes.

Investigation Committee

J. F. Allan, J. A. Allen, D. A. Clarke, E. J. Frary, R. F. Griffiths, J. A. Jackson, B. A. Maynard, E. C. Meade, J. D. Russell, E. C. Sayers, R. G. Slack, C. C. Taylor.

Overseas Relations Committee

B. D. Barton, Sir Henry Benson, J. P. Grenside, M. R. Harris, W. G. Medlam, D. D. Rae Smith (*c*) D. W. Robertson, J. A. P. Whinney (*c*).

Parliamentary and Law Committee

F. C. de Paula (*c*), D. R. Gray (*c*), J. P. Grenside, A. J. Hardcastle (*c*), W. Hare, M. R. Harris, D. C. Hobson (*c*), S. Kitchen, E. C. Meade, E. E. Ray (*c*), D. W. Robertson, J. D. Russell, H. G. Sergeant (*c*), M. Sheppard (*c*), R. P. Tovey. Chairman of Technical Advisory Committee (alternate with Vice-Chairman of Technical Advisory Committee). Chairman of Technical Committee has right to attend meetings.

Professional Standards Committee

E. L. Ashton (*c*), J. C. Bayley, P. M. Benson (*c*), L. H. Clark, S. M. Duncan, J. V. Eastwood, W. R. McBrien, W. G. Medlam, H. T. Nicholson (*c*), D. W. Robertson, J. C. M. Williams, E. K. Wright.

Public Relations Committee

J. A. Allen, G. R. Appleyard, D. G. Bee (*c*), A. J. Burden (*c*), S. Edgcumbe, K. J. Hilton (*c*), J. Lunch, G. S. Major (*c*), D. H. Tonkinson (*c*), J. C. M. Williams.

Research Committee

E. W. Barnes (*c*), Professor B. V. Carsberg (*c*), N. Charlton, Professor H. C. Edey, Professor J. F. Flower (*c*), G. P. Morgan-Jones (*c*), D. G. Richards.

Technical Committee

L. H. Clark, S. M. Duncan, N. Cassleton Elliott (*c*), A. C. Essex (*c*), G. N. Hunter (*c*), J. W. Margetts (*c*), D. Napper (*c*), E. R. Nicholson (*c*), A. Pinkney (*c*), A. P. Ravenhill (*c*), B. G. Rose (*c*), E. C. Sayers K. J. Sharp, D. C. Urry, J. A. P. Whinney (*c*), S. P. Wilkins. Vice-Chairman of Technical Advisory Committee (alternate with Chairman of Technical Advisory Committee). Chairman of Parliamentary and Law Committee – right to attend meetings.

P. D. Leake Committee

President: P. H. Dobson; R. W. Foad, W. B. Nelson, E. K. Wright.

Accounting Standards Steering Committee

L. H. Clark, S. M. Duncan, Professor H. C. Edey, J. W. G. Frith, S. R. Harding, D. C. Hobson (*c*), S. Kitchen, Sir Ronald Leach, D. S. Morpeth, K. J. Sharp, S. P. Wilkins.

Technical Advisory Committee

The following Council appointees on the Technical Advisory Committee have been appointed for the year 1971–72: B. D. Barton, D. C. Burling, P. J. Cavanna, L. H. Clark, N. Cassleton Elliott, D. Napper, E. R. Nicholson, B. G. Rose, G. Thompson, G. H. Vieler, J. A. P. Whinney.

Joint Diploma Board of the Joint Diploma in Management Accounting Services

The following members were appointed as the Institute's representatives on the Joint Diploma Board of the Joint Diploma in Management Accounting Services for the year 1971–72: J. V. Eastwood, B. A. Maynard, E. C. Sayers, R. G. Wilson.

London and District Society of Chartered Accountants

The following members have been appointed by the Council to serve on the Committee of the London and District Society of Chartered Accountants for the ensuing year: D. G. Richards, H. G. Smith, D. C. Urry.

Nine Months' Full-time Courses for Articled Clerks

The following statement was approved for publication: The Council announces that the following colleges have been invited to participate in the provision of nine months' full-time courses for the session 1971–72:

College	Sept./Oct. 1971	Places offered Jan. 1972	Feb. 1972	April 1972
Birmingham Polytechnic	60			
Brighton Polytechnic	30			
Bristol Polytechnic	80			
Coventry-Lanchester Polytechnic	25			
Glamorgan Polytechnic	40			
Hatfield Polytechnic	25			
*Huddersfield Polytechnic	24			
Leeds Polytechnic	65	25		
Leicester Polytechnic	25			
Liverpool Polytechnic	100		20	
London				
City of London Polytechnic	220	40		40
Ealing Technical College	20			
Enfield College of Technology	25			
Kingston Polytechnic	70			
North East London Polytechnic	25			
Polytechnic of North London	90			
Polytechnic of the South Bank	120			
Thames Polytechnic	20			
Manchester Polytechnic	60			
Newcastle Polytechnic	50			
North Staffs Polytechnic	25			
*Oxford Polytechnic	25			
Plymouth Polytechnic	24			
Portsmouth Polytechnic	30			
Sheffield Polytechnic	40			
Sunderland Polytechnic	24			
Teesside Polytechnic	25			
Trent Polytechnic	40			
Wolverhampton Polytechnic	50			
Total .. 29 (two new)	1,457	65	20	40

*College providing a course for the first time.

Examination Results – March 1971

It was reported that the results of the Intermediate examination held in March 1971 were as follows:

	Passed	*Failed*	*Total*
Intermediate	1,302	1,233	2,535

The names of the successful candidates and of those placed in order of merit and awarded prizes were published as a supplement to *The Accountant* of May 27th.

Registration of Articles

The Secretary reported the registration of 183 articles of clerkship during April, 1971, the total number for the year ended April 30th, 1971, being 4,442. Comparative figures for 1970 were 311 and 4,327.

Admissions to Membership

The following were admitted to membership of the Institute:

Anderson, Peter Thomas, London N20.
Austin, Porus Framroze, London SE3.
Barrett, John Seymour, Salisbury.
Bartlett, Roger Anthony John, B.COM., Cranbrook.
Bates, Keith Reginald, Bromsgrove.
Bekenn, Anthony Charles Stratford upon-Avon.
Bennetts, David Merlin, B.A., London WC1.
Benzie, Alan Athol Emslie, Wilmslow. (Resident abroad.)
Birkett, Norman George, London SW1.
Brown, Nigel Roy, London SW2.
Brown, Patrick Alec, Camberley.

Butterfield, Simon Percy, Lindfield.
Cable, Alan James, St Neots.
Carr, James Ronald, B.A., London SW10.
Carvosso, John Charles, Poole.
Cawthorne, John, B.A., Sheffield.
Chatfield, Roy Charles, B.A., Woking.
Chaudhry, Zia-Ul-Haque, London SW3.
Clarke, Peter Adrian, Farnham.
Clayton, Roderick John, London W14.
Clyde, Michael Patrick, Maidenhead.
Cook, Frederick Anthony, London NW11.
Cooper, Peter Arthur, London E17.
Davis, Philip John, Radlett.
Day, Anthony Michael, Sanderstead.
Deadman, Peter Robert Nigel, Englefield Green.
Dedman, Christopher George, Barnard Castle.
Dornan, Patrick John, Sheffield.
Duro-Emanuel, Oladotun Gbolahon, Lagos.
Elliot, Ian Douglas Murray, London N20.
Ellis, John Richard, Ascot.
Fisher, Peter Blake, Brockenhurst.
Forbes, Timothy John, London W2.
Fox, David Hamilton, B.A., London W8.
Gara, Michael, Ossett.
Garrett, David Trevarthen, B.A., London SW19.
Gick, Alan, Chichester.
Gillespie, Peter Hugh, London SW10.
Gupta, Anil Kumar, London SW5.
Haines, John, B.SC., Chichester.
Harding, Paul Ifold, London W1.
Hare, Martin Dudley, Stockport.
Harper, Thomas Richard Hellier, New Milton.
Harryman, Anthony David, B.COM., Birmingham.
Harvey, David Hellyer, Bromley.
Healey, Eric James George, Warrington.
Hillier, Ronald David, Harlow.
Hilton, Raymond Thomas, Manchester.
Hodgson, Edward William, Leamington Spa.
Holland, Clifford John, B.SC., Downley.
Hollow, John Alan Hilary, St Ives, Cornwall.
Hoskin, Peter John Michael, Beckenham.
Husain, Nasim, Karachi.
Hutton, Clive, Upminster.
Jeff, John Peter, London W11.
John, Bruce William, Painswick.
Johnson, Philip Michael, Oldham.
Kayne, Stephen Warren, Liverpool.
Khan, Mohammad Jaffar, Calgary.
Khanna, Ashok Chand, London EC2.
Kieran, Gerard Paul, Greenford.
Lewin, Richard Duncan, London SW15.
Lloydbottom, Stephen Lloyd, London NW3 4ND.
Lyster, Torrens St George Fitzgerald, B.A., London NW3.
McAnoy, Gordon Ashley, Winchester.
Mannion (Miss), Kathleen Mary, Oldham.
Martin, Anthony James, Harrow.
Mehta, Ajay Kishan, London W1.
Mohammed Salleh Bin Haji Harun, Kuala Lumpur.
Morgan, Nigel, Cardiff.
Moss, Harvey, London N2.
Ndungu, Felix, Kenya.
Newman, Terence James, Barnet.
Nicholson, Douglas Macaulay, Ponteland.
Nithianandan, Suppiah Ramasamy, Ipswich.
Ormerod, Anthony Keith Raymond, London N2.

a indicates the year of admission to the Institute.
aS indicates the year of admission to The Society of Incorporated Accountants.
* Practice is not member's main occupation.
Firms not marked †, or * are composed wholly of chartered accountant members of the Institute.
† against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.
* against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

Orr, John Stuart, Enfield.
Owens, Andrew Stuart, London SW19 5DQ.
Penrose, John Stuart, Bexhill-on-Sea.
Pierre, Claude Allain Guy, London EC2.
Postones, Trevor George, Halesowen.
Rawkins, Robert Michael, Preston.
Reynolds, Michael Barry, Manchester.
Riddle, Rodney Keith, Maidstone.
Rogers, Christopher Roland, Leeds.
Rudd, Brian Anthony, London SW19.
Sewell, Dennis John, B.A., London W4 4LE.
Siddiqi, Ghazanfar Ali, Karachi.
Southwood, David, Pinner.
Sowerby, Richard Thomas, Hitchin.
Stanton, Raymond John, B.A., Worcester.
Stevens, Ian James, Brockenhurst.
Thomas, Alan Richard Havelock, Walton-on-Thames.
Thompson, Michael Geoffrey, Saffron Walden.
Trapnell, Howard Sinclair, London N6.
Uddin, Abul Fazal Mohammad Nasir, London SW5.
Walker, Charles Mackay, Harrow.
Whiteley, Christopher Keith, M.A., London W6.
Wonfor, Martin Robert Francis, B.A., London SW6.
Wood, Brian Grenville, Birmingham.
Wright, Adrian John, Newcastle upon Tyne.
Wright, Clive Leslie, Birmingham.
Yang, Chiu Ming, London WC1.
Young, Paul Anthony, Rhondda.

Fellowship

The Council granted applications from 14 associates to become fellows under clause 6 of the supplemental Royal Charter.

Incorporated Accountant Members becoming Chartered Accountants

The Council granted an application from the following incorporated accountant member to become a Chartered accountant under bye-law 129:

Kreyenbroek, Paul, F.C.A., 108 The Drive, Westdene, Benoni, Transvaal, South Africa.

Members Commencing to Practise

The Council received notice that the following members had commenced to practise:

Bleasdale, Christopher James, A.C.A., *a*1966; *Cooper Brothers & Co, PO Box 998, Ndola, Zambia.
Bliss, Nicholas John, M.A., A.C.A., *a*1967; †Cooper Brothers & Co, 108 Great Victoria Street, Belfast BT2 7AX.
Bolton, Timothy Patrick, A.C.A., *a*1967; 19 The Marts, Rudgwick, near Horsham, Sussex.
Broadhurst, Ian Kevan Averill, A.C.A., *a*1962; *Geo. E. Harding & Co, 8 Brook Street, Stoke-on-Trent, ST4 1LA.
Buchan, Andrew James, A.C.A., *a*1969; Hunter, Jones, Halford & Co, Bank Chambers, 45 Ludgate Hill, London EC4.
Carson, Anthony Roger, A.C.A., *a*1970; Anthony R. Carson & Co, 37 Besant House, Boundary Road, London NW8.
Conway, Thomas Henry, F.C.A., *as*1954; Mark J. Rees & Co, 121 Granby Street, Leicester.
Gittings, Michael Richard, A.C.A., *a*1969; Davies Watson & Co, 52 Belgrave Road, London SW1.
Goldson, Edward Browne, F.C.A., *a*1936; 12 High Street, Yarm, Yorkshire.
Greenhalgh, Melvyn, A.C.A., *a*1966; *Hayhow & Co, 19 King Street, King's Lynn, Norfolk.
Grossick, Ian Robert, A.C.A., *a*1961; 31 Greengate, Hale Barns, Cheshire.
Hart, Charles James, A.C.A., *a*1969; Hart, Fry & Co, 19 Abbots Court, Sale, Cheshire.
Hassell, John Charles, A.C.A., *a*1967; Wilkins Kennedy & Co, 8 Queen Street, Cheapside, London EC4N 1TE.
Hollis, Wayne Jeffrey, A.C.A., *a*1965; Pike Russell & Co, St Vedast House, 150 Cheapside, London EC2.
Howes, Michael Denis, F.C.A., *a*1960; R. H. Coombes & Co, 'Hillside', Albion Street, Chipping Norton, Oxon OX7 5BH.
Jones, David Anthony, A.C.A., *a*1965; *Peat Marwick, Mitchell & Co, PO Box 123 Sassoon House, Nassau, Bahamas.
Linge, Kenneth Edward, A.C.A., *a*1970; Soole & Co, Sicilian House, Sicilian Avenue, Southampton Row, London WC1A 2QJ.
Lower, Richard Gilbert, A.C.A., *a*1966; Wilkins, Kennedy & Co, 8 Queen Street, Cheapside, London EC4N 1TE.
MacMillan, Terence John, A.C.A., *a*1966; 46 Rudgard Avenue, Cherry Willingham, Lincoln.
Mandair, Tarlok Singh, A.C.A., *a*1971; Williams, Foster & Co, 15/17 Clarence Road, Southend-on-Sea, Essex SS1 1AP.
Marshall, Terence Ashley, A.C.A., *a*1971; Cresswell Crabtree & Sons, Martins Bank Chambers, Market Street, Hebden Bridge, Yorkshire.
Moore, Peter Robert, A.C.A., *a*1968; Kimberley Morrison, Moore & Co, Midland Bank Chambers, 47 Temple Row, Birmingham 2.
Mughal, Muhammad Ismail, A.C.A., *a*1970; Mogul & Co, 13 Wilberforce Road, London N4 2SN.
Ogunde, Adedoyin Olayide, A.C.A., *a*1966; *Peat, Marwick, Cassleton Elliott & Co, 6 Marina, PO Box 549, Lagos, Nigeria.
Platt, Daniel Lloyd, A.C.A., *a*1971; M. Sorsky & Co, 58 Muswell Hill Broadway, Muswell Hill, London N10 3RT.
Playfoot, Darrell James, A.C.A., *a*1968; Creasey, Son & Wickenden, 12 Lonsdale Gardens, Tunbridge Wells, Kent.
Reeks, Christopher John, A.C.A., *a*1966; *Hayhow & Co, 19 King Street, King's Lynn, Norfolk.
Ricketts, David Abdy Close, A.C.A., *a*1966; Albert Goodman & Co, 3 Hammet Street, Taunton, Somerset.
Scovell, Martin Gilbert, A.C.A., *a*1964; M. G. Scovell & Co, 74 Hamilton Park West, Highbury, London N5.
Shail, Richard, A.C.A., *a*1968; Wilkins Kennedy & Co, 8 Queen Street, Cheapside, London EC4N 1TE.
Sinclair, Keith Law Grant, A.C.A., *a*1963; †Cooper Brothers & Co, National Bank Chamber, Old Moshi Road, PO Box 117, Moshi, Tanzania.
Sneath, Christopher George, F.C.A., *a*1957; *Peat, Marwick, Mitchell & Co, 11 Ironmonger Lane, London EC2P 2AR.
Snook, Richard George, A.C.A., *a*1968; W. Y. Thomson & Co, 16–18 Clapham Junction Approach, Battersea, London SW11 2QT.
Stirrup, Jeremy Newsome, A.C.A., *a*1967; Porter Matthews & Marsden, 43 Preston New Road, Blackburn, Lancs BB2 6AF.
Turnbull, Leslie Middleton, B.SC., F.C.A., *a*1934; 6/7 Queen Street, London EC4N 1SX.
Vice, David Patrick, A.C.A., *a*1969; Mark J. Rees & Co, 121 Granby Street, Leicester.
Watkins, Philip George, M.A., J.P., A.C.A., *a*1961; 7 Compton Road, London N1 2PA.
Webb, Michael Frederick, A.C.A., *a*1968; Benjafield Helliwell & Co, 30 Chamberlain Street, Wells, Somerset BA5 2PJ.
Wormald, William, A.C.A., *a*1968; 11 Matfield Crescent, Maidstone, Kent.

Re-admission to Membership

Subject to payment of the amount required by the Council, one former

member of the Institute was re-admitted to membership under bye-law 38.

Resignations

The Council accepted the resignations from membership of the Institute of:

Hatfield, Brian Malcolm, F.C.A., *a*1928; 'Foxhow', Marcham, near Abingdon, Berks.

Lismer, Lawrence Joseph, F.C.A., *a*1932; 10 Stoughton, Chichester, Sussex. (Retired.)

Paulden, James Lawrence, D.F.C., F.S.A.A., *a*1958; 28 Albert Terrace, Christchurch 2, New Zealand.

Shaw, Terence Thomas, F.C.A., *a*S1929; 277 Park Avenue, New York, NY 10017, USA.

Shields, Robert Boris, F.C.A., *a*1951; 100 Adelaide Street West, Suite 705, Toronto 110, Canada.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Adams, Ralph Clifford, F.C.A., Broadway, Worcs.
Allott, Reginald William, F.C.A., Rotherham. Yorks.
Anderson, Victor Ronald, F.C.A., Conway, Caernarvonshire.
Banting, Henry Cecil, T.D., F.C.A., Wembley, Middlesex.
Brown, Bernard Edwin, F.C.A., Penylan, Cardiff.
Collinge, Arnold Roy, F.C.A., Bacup, Lancs.
Creed, Frederick Sherman, B.SC.(ECON.), F.C.A., Beckenham, Kent.
Coward, Arthur Joseph Robert, F.C.A., London.
Danson, John Francis, M.A., F.C.A., Ingatestone, Essex.
Deacon, Warick, F.C.A., Padstow, Cornwall.
Dickinson, William, F.C.A., Blackburn, Lancs.
Ellwood, Derek John, A.C.A., Salisbury, Wilts.
Fillingham, Alan, M.A., F.C.A., Harrogate, Yorks.
Gill, Alan, F.C.A., Middlesbrough, Yorks.
Greenwood, Frederick Sidney, F.C.A., Buntingford, Herts.
Hindle, Ross, F.C.A., London.
Hirst, William Henry, F.C.A., Leeds.
Hubbard, John Leslie, M.S.M., F.C.A., Leicester.
Hughes, Edward George, F.C.A., Wirral, Cheshire.
Hunt, George William, F.C.A., London.
Hutchings, Edgar Louis, F.C.A., Cheltenham, Glos.
Jones, Hugh Nicholas Bentley, B.A., A.C.A., Northwood, Middlesex.
Kinnear, Edward Frederick, F.C.A., St Anne's on the Sea, Lancs.
Lawe, Frederick Trevor, F.C.A., Wakefield, Yorks.
Lead, Leonard Percival, F.C.A., Teddington, Middlesex.
Molyneux, Ernest Leslie, F.C.A., Cardiff.
Pratt, George Leonard, F.C.A., Henley-on-Thames, Oxon.
Redfearn, George Owen, M.M., F.C.A., Penzance, Cornwall.
Schiff, Stanley Aubrey, M.A., F.C.A., London.
Simmons, Michael Philip, F.C.A., Bournemouth, Hants.
Swinburne, Wilfred, F.C.A., Preston, Lancs.
Toomer, Colin Evans, B.SC.(ECON.), A.C.A., Bristol.
Towill, Frederick Henry, M.B.E., T.D., F.C.A., Bristol.
Wigzell, Howard Elphick, F.C.A., Burgess Hill, Sussex.
Willis, James Robert, F.C.A., Bexhill-on-Sea, Sussex.

FINDINGS AND DECISIONS OF THE DISCIPLINARY COMMITTEE

Findings and Decisions of the Disciplinary Committee of the Council of the Institute at hearings held on 20th April 1971

1. A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council:

That Jack Burke Donert a member of The Institute of Chartered Accountants in England and Wales has been guilty of acts or defaults discreditable to a member of the Institute within the meaning of clause 21 (3) of the Supplemental Royal Charter

(*a*) In that he without good cause failed within a reasonable time or at all to reply to a letter addressed to him in his professional capacity on the 9th October 1970 by a client, Mr X

(*b*) And in that he without good cause failed within a reasonable time to reply to a letter addressed to him by the Institute on the 21st October 1970

(*c*) And in that he on 1st December 1970 in a letter addressed to the Institute stated 'I have now written to Mr X giving him the accounts and information he asks for . . .' whereas, as he well knew, he had not communicated with the said Mr X

(*d*) And in that he at London having in April 1970 received from a client accounts for the year ending 31st March 1970 with a view to his settling the tax affairs of the client, without due cause failed to deal expeditiously or at all with the matters then entrusted to him.

Finding

The committee found that the formal complaint against Jack Burke Donert, F.C.A., had been proved under all the above headings.

Decision

The committee ordered that Jack Burke Donert, F.C.A., of Flat F, 13 Compton Road, London N1, be excluded from membership of the Institute.

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2. A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council:

That a member of The Institute of Chartered Accountants in England and Wales has been guilty of acts or defaults discreditable to a member of the Institute within the meaning of clause 21 (3) of the Supplemental Royal Charter

In that he without due cause failed within a reasonable time or at all to reply to a letter addressed to him by the Institute on the 14th September 1970.

Finding

The committee found that the formal complaint had been proved.

Decision

The committee ordered that the member be admonished but the committee considered that there existed special circumstances justifying the omission of his name from the publication of the Finding and Decision.

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3. A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council:

That Alan Brian Moore having been a clerk under articles has been guilty of criminal offences which, according to the criminal law in force as at 23rd September 1965, would then have constituted felonies or misdemeanours which might render him unfit to become a member of the Institute under the meaning of clause 22 (*a*) of the Supplemental Royal Charter

In that he on 24th November 1970 was convicted of nine charges of theft and two charges of falsifying a record.

Finding

The committee found that the formal complaint against Alan Brian Moore, formerly a clerk under articles, had been proved.

Decision

The committee ordered that Alan Brian Moore, formerly a clerk under articles, now in one of HM Prisons, be declared unfit to become a member of the Institute.

STUDENT ROUNDABOUT

Good Future for South Wales Society

Mr R. P. V. Rees, A.C.A., a partner in Deloitte & Co, of Cardiff, has been re-elected President of the South Wales and Monmouthshire CASS for the second consecutive year.

A member of the Institute since 1963, he has been an active member of the Society for a number of years, serving as Vice-President and as a member of the committee during his student days.

He is fortunate in that he has a hard-working committee and, as a result, 'sees a good future for the Society in South Wales'. He has, he says, been genuinely impressed by the

considerable and enthusiastic effort which the committee makes to ensure that the Society is active and forward-looking.

Married with one daughter, Mr Rees tells us that among his recreational activities he is an 'enthusiastic but weak golfer' and takes a great interest in rugby and cricket – in earlier days he captained the Society's respective teams.

Other officers elected for 1971–72 are:

Chairman: Mr N. G. Gibbs, B.COM.

Secretary: Mr A. Fletcher, 'Highwood', 8 Alltmawr Road, Cyncoed, Cardiff. Telephone 0222 752721.

Assistant Secretaries:

Education: Mr I. Kennedy.

Entertainments: Mr R. Clyne.

Publicity: Miss Jane Worthing.

Society's Year

With a total membership of 234 at December 31st, the South Wales and Monmouthshire CASS is going all out to recruit more members. At the annual general meeting of the Society, the committee felt that those successful in their final examinations should be invited to continue their membership. The committee were also of the opinion that it would be beneficial if more members of the District Society, especially principals, were members. All articled clerks were urged to invite their principals as well as other members of the profession to join the Society.

It is proposed to continue in 1971–72 the committee's policy of expanding the scope of lectures directed at examination topics, as well as lectures on other professions and matters of general interest, all of which proved very popular and well attended during the past year.

The Society's social activities were also well supported. For the first time in many years a dinner was held ('Roundabout', October 1st) when the principal guest was Mr Tasker Watkins, V.C., Q.C., who entertained the 70 students and guests with an interesting speech on the relationship between the legal and accountancy professions.

The annual dinner dance was held on December 23rd and was once again a tremendous success. The committee recorded its appreciation to the President, Mr R. P. V. Rees, A.C.A., who presided, and extended generous hospitality to the guests and representatives of other student societies.

In January, the then President of the Institute, Mr C. Croxton-Smith, M.A., LL.B., F.C.A., visited Cardiff and was entertained by the Society to tea at the Angel Hotel where afterwards he addressed the 50 or so members present on the future of the profession and dealt with some 'old chestnuts' on rates of pay and conditions.

AMBITIOUS PROGRAMME FOR PORTSMOUTH

In accordance with its statement contained in its annual report ('Roundabout', April 22nd), Portsmouth and District CASS is giving a lead to many societies with their plans for introducing in the coming months whole-day, afternoon and evening lectures, and the likelihood of a week-end course.

Some of these meetings will be held in conjunction with the Southampton CASS and directed so as to give the best possible benefit at the specific stages of members' studies. Full details will be announced under 'Roundabout' as soon as the respective programmes have been finalized.

In order not to become 'too introspective', the Society has decided to invite other societies to participate in social functions – a neat manœuvre, so that Miss Cox, the treasurer 'can keep proper accounts'. The innovation has already proved a success with the tramps' ball which continued until past 1 a.m. earlier this month at Chandlers Ford. For 75p, no one complained at being free to help themselves to beer, cider and supper and to compete for prizes.

A midsummer night's dream

As its title implies, Portsmouth CASS is holding a Shakespearean times fancy dress ball on Monday, June 21st, at the Golden Apple Club, Portsmouth. Commencing at 8 p.m. and lasting until the early hours; tickets, price 30p single and 50p double, are available from Geoff Brown, the Society's secretary, c/o Morris Crocker & Co, 102 Victoria Road North, Portsmouth, or any committee member.

Cricket players wanted

The Society is in urgent need of members to participate in a cricket match against Portsmouth Banks scheduled to take place on June 20th. Members willing to help make up a good team should get in touch with the Society's secretary at the above address as soon as possible. Delay in doing so could well lead to the match being cancelled.

FLEMING BIRCH PRIZES

At the recent annual general meeting of The Leicestershire and Northamptonshire Society of Chartered Accountants, Mr P. J. Lea-Wilson, A.C.A., who was articled to Mr G. L. Aspell, T.D., D.L., F.C.A., of Leicester, was awarded the Fleming Birch Prize in Part II of the Institute's May 1970 Final examination.

Another of Mr Aspell's articled clerks, Mr C. J. Briggs, was awarded the Prize in the March Intermediate examination. Mr C. H. Jones, A.C.A., who was articled to Mr C. Baddiley, F.C.A., of Kettering, was also awarded the Prize for his success in Part II of last November's Final examination.

Other Fleming Birch awards are as follows:

Intermediate
September 1970: Mr P. D. Jackson, articled to Mr A. J. Jinks, A.C.A., of Leicester.

Final Part I
May 1970: Mr J. C. Davis, articled to Mr V. M. Green, A.C.A., of Leicester.

November 1970: Mr J. D. McGibbon, articled to Mr T. Pittom, F.C.A., of Leicester.

TEES-SIDE ANNUAL MEETING

Evening lecture meetings might be more popular if orientated round examination subjects, it was stated at the recent annual general meeting of the Tees-side CASS.

In the unavoidable absence of the Chairman, Mr R. Hill, the President of the Society, Mr H. B. Kilvington, F.C.A., presided and, reviewing the events of the past year, he expressed disappointment at the poor attendance at evening lectures. These might be more popular, he suggested, if they were devoted directly to examination subjects.

However, the general feeling of the meeting was that under the present scheme, seminars for members were both more instructive as well as being worth-while social occasions. It was decided to pass this opinion on to the new committee for consideration in planning the ensuing year's programme. Appreciation was expressed for the support given by firms in the area to the Society's activities – particularly the business games and auditing seminars.

The report, and the accounts which showed a surplus of £90 for the second year running, were duly adopted. Mr W. F. Garton, F.C.A., A.T.I.I., A.M.B.I.M., D.M.S., and Mr R. Hill were elected to the Council of ACASS for 1971–72, and the following were elected to the Tees-side Committee for the ensuing year:

President: Mr J. Norris, B.A., F.C.A.
Vice-President: Mr M. G. Rider, F.C.A.
Chairman: Mr R. Hill.
Secretary/Treasurer: Mr W. F. Garton, c/o Business Studies Department, Tees-side Polytechnic, Middlesbrough, Tees-side.
Senior member: Mr G. T. Watson, M.A., F.C.A.
Ordinary members: Messrs F. J. Beeston, H. W. Milner, I. T. Purcell and J. R. Parker, B.SC.

WEST WALES FIDDLERS' BALL

For the last five years, the main source of income for the West Wales CASS has been the annual Fiddlers' Ball. The profits made have enabled the Society to subsidize heavily its social events, e.g., the Nottingham Sports Fiesta, the annual dinner, as well as to provide a comprehensive lecture programme. This year is no exception and the Society is again in the process of organizing this fund-raising dance.

Attractions at previous balls have been such groups as the Faces, Status Quo, Deep Purple and Cupid's Inspiration to name but a few. For 1971, entertainment will be provided by Manfred Mann, Jerico Jones, Peppermint Circus and a disc jockey.

The ball will be held in the Top Rank Suite, Swansea, – capacity 2,000 – on June 25th. Dancing will be from 8 p.m. till 1 a.m. Tickets, price 70p, are available from any committee member.

A big demand for tickets is expected – Manfred Mann, in particular, is always successful on his group's visits to the area. Those wishing for a good evening's enjoyment should not hesitate a minute longer in obtaining their tickets – not many are left.

LEICESTER MOTOR RALLY

The Leicestershire and Northamptonshire CASS is holding its annual motor rally on Monday, June 28th, over 60 to 70 miles of Leicestershire countryside. Commencing at 2.30 p.m., the start will be from the De Montfort Hall, Granville Road, Leicester, ending at a well-known public house – to reveal its location would, of course, be 'unethical' – where the winner will be presented with a silver trophy.

Participants and followers are guaranteed a jolly evening, though drivers are warned to take the necessary precautions – it's only the beginning of the week and it's work next day!

The number of cars is limited to 12. First come, first in the competition. Members of the Society wishing to enter the rally should contact immediately either Ahswin Patel, the Society's secretary, or John McGibbon, both c/o Thornton Baker & Co, 8 West Walk, Princess Road, Leicester (telephone 23141), or Miss Ann Clarke, c/o Newby, Castleman & Co, 38 De Montfort Street, Leicester. Telephone 23464.

Some members of the Leicestershire and Northamptonshire CASS enjoying themselves at the 'May Melting Pot' – the Society's annual dance – held at the Penny Farthing Club on May 27th. The dance, again a sell-out, continued until the early hours to the beat of the MBS Group. During a brief interlude a member, with the aid of the group's drummer, delighted the company with folk songs.

Notes and Notices

PROFESSIONAL NOTICES

MACKIE & CLARK, Chartered Accountants, of 124 St Vincent Street, Glasgow C2, announce that Mr THOMAS URQUHART, C.A., retired as a partner with effect from May 31st, 1971, and Mr WILLIAM R. DOCHERTY, C.A., who has been a senior member of the staff for some years, has been assumed as a partner of the firm with effect from June 1st, 1971.

SLATER, CHAPMAN & COOKE, Chartered Accountants, of 1 Dover Street, London W1, announce that Mr B. A. C. HULL, F.C.A., has been admitted to partnership with effect from June 1st.

POWLES & CO, Chartered Accountants, of Northway House, High Road, Whetstone, London N20, announce that Mr J. E. POWLES, F.C.A., retired from practice on May 31st, 1971.

TOWNSEND, WATSON & STONE, Chartered Accountants, announce that with effect from June 1st, 1971, they have merged their practice with that of POWLES & CO, with whom they have been in association since 1966, and that Mr W. H. POWLES, F.C.A., the remaining partner of POWLES & CO, has become a partner in the new firm which will be carried on under the name of TOWNSEND, WATSON & STONE, at Northway House, High Road, Whetstone, London N20.

APPOINTMENTS

Mr Paul Harris, F.C.A., has been appointed secretary of Rowton Hotels as from June 1st.

Mr K. G. Hodson, LL.B., F.C.W.A., F.C.I.S., has been appointed financial director and secretary of Platt-Schindler Lifts.

Mr K. S. Hooper, B.COM., A.C.A., has been appointed secretary of Bernard Wardle & Co as from June 1st; he continues to hold the position of group accountant.

Mr J. T. Inglis, C.A., has been appointed to the board of Bruce Peebles Industries as finance director.

OBITUARY

Eric Henry Charles Brown, F.C.A.

The death occurred recently at the age of 54, of Mr E. H. C. Brown, F.C.A., Assistant Director (Finance) and Secretary of the Electrical Research Association, after an illness lasting several months.

Mr Brown joined Deloitte, Plender, Griffiths & Co when he left school, and from 1940 to 1946 served with the Royal Army Service Corps in Europe and India, attaining the acting rank of Major. After war service, he returned to Deloittes and in 1948 joined Thomas Wallis & Co as assistant secretary and accountant. He subsequently spent fifteen years as secretary and chief accountant to Knowles & Foster, merchant bankers, leaving in January 1965 to join the LAS Group as secretary and chief accountant.

He became secretary of the Electrical Research Association on July 11th, 1966, and, in addition, was appointed Assistant Director (Finance) in July 1970.

Eric Brown's wide experience stood the Association in good stead during a period of considerable change in its financing and methods of operation, and he contributed very fully and enthusiastically to the achievement of success. He will be remembered by his colleagues at ERA and by his many friends for his very great reserves of courage and his generosity of spirit.

DOUBLE TAXATION

Zambia

Discussions have taken place in London from May 24th–27th on a new Double Taxation Convention between the United Kingdom and Zambia. Agreement has been reached at official level on the text which will now be submitted to both Governments.

PREVENTION OF FRAUD (INVESTMENTS) ACT 1958

The 1971 edition of the annual publication[1] containing particulars of persons and firms authorized to carry on the business of dealing in securities as at January 31st, 1971, has now been published by the Department of Trade and Industry.

It contains the names and addresses of holders of principals' licences, of members of stock exchanges, of associations of dealers in securities which are recognized by the Department, and of exempted dealers. Particulars of unit trust schemes authorized by the Department are also included.

[1] *Particulars of Dealers in Securities and of Unit Trusts 1971* (price 45p.)

NEW TECHNICAL APPOINTMENT BY ENGLISH INSTITUTE

Mr C. A. Westwick, B.SC.(ECON.), F.C.A., has recently been appointed an under-secretary in the Technical Department of The Institute of Chartered Accountants in England and Wales. Educated at St Paul's School and the London School of Economics, he was admitted as a member of the Institute in 1957.

In 1959 he joined the newly-formed Centre for Interfirm Comparison, where he did much to develop and propagate its techniques. Later, he joined Associated Industrial Consultants, where he worked on a variety of assignments in the United Kingdom, and was seconded to NEDO to write 'A study of profitability in the hosiery and knitwear industry'.

Mr Westwick has written widely for professional journals, including *The Accountant*, and given many lectures and talks to management audiences.

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CHARTERED ACCOUNTANT TO HEAD WELSH COUNCIL

Mr M. W. Rosser, F.C.A., has been appointed by the Secretary of State for Wales to serve as Chairman of the Welsh Council until March 1974. Mr Rosser is a former incorporated accountant, and a partner in the Cardiff practice of Deloitte & Co.

Another member of the Council is Sir Julian Hodge, F.C.C.A., chairman and managing director of the Hodge Group.

NEW PRESIDENT FOR WEST OF ENGLAND CHARTERED ACCOUNTANTS

Mr R. C. Bassett, F.C.A., a partner in Turquand Youngs & Co, Chartered Accountants, has been elected President of the West of England Society of Chartered Accountants for 1971–72.

Educated at Marlborough College, he was commissioned in the Royal Tank Regiment during the Second World War, and on demobilization

became articled to Mr Norman Webber, F.C.A., of Ware Ward & Co, Chartered Accountants, of Exeter (now Turquand Youngs & Co).

Admitted a member of The Institute of Chartered Accountants in England and Wales in 1955, Mr Bassett became a partner in 1960, and then moved to the Bristol office of the firm. From 1962–65 he was Secretary of the West of England Society, and also Secretary of the Bristol Area Branch, of which he was Chairman for 1966–67.

Married with three children, Mr Bassett's recreational interests are gardening and golf.

Other officers elected for 1971–72 are:

Vice-President: Mr T. G. Preedy, F.C.A., of Plymouth.

Treasurer: Mr J. D. W. Marle, F.C.A., of Bristol.

Secretary: Mr D. M. Parkes, F.C.A., 15 Pembroke Road, Bristol BS8 3BG.

BRISTOL CHARTERED ACCOUNTANTS' NEW CHAIRMAN

Mr K. B. Stone, F.C.A., a partner in Chalmers, Impey & Co, has been elected chairman of the Bristol Area Society of Chartered Accountants for 1971–72. Born in 1931 he was educated at Monmouth School and Eastbourne College, and having served articles with Mr H. A. Beale, F.C.A. (now retired) of Chalmers, Wade & Co, Chartered Accountants, of Birmingham, qualified with honours in the November 1952 final examination.

After two years as a National Serviceman in the Royal Army Pay Corps, Mr Stone joined Chalmers, Wade & Co in their London office, subsequently became a partner at Birmingham in 1958, and then a partner at Chalmers Impey & Co's Yeovil office. He was elected secretary of the local group of chartered accountants in 1965.

Mr Stone is married with one teenage daughter.

Other officers elected for 1971–72 are:

Vice-Chairman: Mr M. B. Nichols, F.C.A.

Treasurer: Mr J. D. W. Marle, F.C.A.

Secretary: Mr D. W. S. Trenfield, B.SC. (ECON.), F.C.A., Trenfield Williams & Partners, Waters Lane, Westbury-on-Trym, Bristol.

SOUTH EASTERN SOCIETY OF CHARTERED ACCOUNTANTS

New President

At the annual general meeting of the South Eastern Society of Chartered Accountants held on May 26th, Mr G. A. Morris, F.C.A., financial director of A. Oppenheimer & Co Ltd, was elected President of the Society for the ensuing year. He is among an increasing number of non-practising members of the Institute who, in recent years, have achieved the presidential office in a district society.

Educated at Tonbridge School, Mr Morris served his articles with Ford, Rhodes & Ford, of London, and qualified in 1940. He was admitted to membership of the Institute in 1946 after war service in the Merchant Navy and the marine section of the Royal Air Force.

Mr Morris specialized for a time in taxation with Edmonds & Co, of Portsmouth, and served on the South Eastern Society's Taxation and Research Committee before transferring to the non-practising side of the profession.

Mr Morris was at one time a prominent oarsman with the London Rowing Club and is now the holder of an umpire's licence. He is a Freeman of the City of London and a liveryman of the Worshipful Company of Tobacco Pipe Makers and Tobacco Blenders which he serves as Assistant Clerk.

Other officers elected for 1971–72 are:

Vice-President: Mr C. F. Horton, F.C.A.

Secretary: Mr P. S. Savage, F.C.A., 12 Marlborough Place, Brighton BN1 1WX.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Technical Advisory Committee

The 172nd meeting of the Technical Advisory Committee was held on Thursday, May 27th, in the Council Chamber at Chartered Accountants Hall, Moorgate Place, London EC2. There were present:

Mr D. Napper (in the chair). Messrs G. F. Appleton, T. Bailey, G. Bar, N. F. Beecham, M. T. R. Brookman, R. P. Brown, D. C. Burling, P. J. Cavanna, I. F. H. Davison, C. C. Dobson, N. Cassleton Elliott, A. C. Essex, C. R. P. Goodwin, E. G. Hill, D. J. Ironside, W. W. W. Martin, K. Mashford, E. R. Nicholson, R. D. Pearce, J. M. Pitts, B. G. Rose, M. Sheppard, F. A. Sherring, N. Smith, T. P. Thomas, G. Thompson, T. I. F. Tod, G. H. Vieler, R. F. Watkins and E. Watts, with Mr G. A. Slator, Secretary to the Committee.

Mr G. N. Hunter attended by invitation.

Membership

The committee expressed its appreciation of the services of the following members who would be retiring from the committee on the conclusion of their term of office:

Messrs R. B. Arrowsmith, D. A.

Clarke, N. Chapelow, D. N. Walton, M. A. Charlton.

The following appointments to membership of the committee for the year 1971–72 were reported:

Nominated by the Council:

Messrs B. D. Barton, M.A., F.C.A., D. C. Burling, F.C.A., P. J. Cavanna, F.C.A., L. H. Clark, F.C.A., N. Cassleton Elliott, M.A., F.C.A., D. Napper, F.C.A., E. R. Nicholson, F.C.A., B. G. Rose, F.C.A., G. Thompson, F.C.A., G. H. Vieler, F.C.A., and J. A. P. Whinney, F.C.A.

Nominated by District Societies:

Beds, Bucks & Herts: Messrs J. E. Burrows, F.C.A., and E. G. Squires, F.C.A.

Birmingham: Messrs H. B. Huntington-Whiteley, F.C.A., and J. M. Pitts, F.C.A.

East Anglia: Messrs N. F. Beecham, F.C.A., and E. G. Hill, F.C.A.

Hull: Messrs C. C. Dobson, F.C.A., and C. E. Smith, A.C.A.

Leeds: Messrs B. H. Buckley, B.A., A.C.A., and N. Smith, F.C.A.

Leicester: Messrs R. F. Watkins, F.C.A., and E. Watts, F.C.A.

Liverpool: Messrs G. F. Appleton, F.C.A., and T. I. F. Tod, F.C.A.

London: Messrs K. G. Bishop, F.C.A., I. F. H. Davison, B.SC.(ECON.), F.C.A., Halmer Hudson, F.C.A., E. E. Ray, B.COM., F.C.A., K. A. Sherwood, F.C.A., and B. W. Waters, F.C.A.

Manchester: Messrs F. A. Sherring, F.C.A., and D. H. Slade, F.C.A.

North West: Messrs G. B. Pidsley, F.C.A., and K. R. Stanley, F.C.A.

Northern: Messrs N. J. Edwards, M.A., F.C.A., and R. Lovely, F.C.A.

Nottingham: Messrs T. Bailey, F.C.A., and J. H. Hewitt, F.C.A.

Sheffield: Messrs R. Firth, F.C.A., and M. Sheppard, F.C.A.

South Eastern: Messrs C. R. P. Goodwin, F.C.A., and K. Mashford, F.C.A.

South Wales: Messrs R. P. Brown, F.C.A., and P. C. Westwood, F.C.A.

Southern: Messrs W. W. W. Martin, LL.B., F.C.A., and R. D. Pearce, F.C.A.

West of England: Messrs G. Bar, F.C.A., and D. J. Ironside, F.C.A.

Co-opted by the Technical Advisory Committee

Messrs M. T. R. Brookman, F.C.A., J. Burgoyne, F.C.A., A. C. Essex, F.C.A., A. P. Hughes, F.C.A., F. R. Loader, F.C.A., J.DIP.M.A., D. R. Newman, F.C.A., H. G. Sergeant, F.C.A., and T. P. Thomas, M.A., F.C.A.

Chairman and Vice-Chairman

Mr N. Cassleton Elliott and Mr J. A. P. Whinney were unanimously appointed Chairman and Vice-Chairman respectively for the year 1971–72.

Mr D. Napper

The committee expressed unanimous thanks to Mr D. Napper, Chairman for 1970–71, on the conclusion of a successful year of office.

Matters considered

Technical matters considered included a discussion paper on 'Accounting for changes in the purchasing power of money'.

Future meetings

It was noted that meetings of the committee had been provisionally arranged for July 8th and October 14th, 1971, and a further meeting was provisionally arranged for December 7th, 1971.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The Rev. Alan Stibbs will open a discussion on 'A problem of affluence' on Tuesday next, June 15th, at 7 p.m.

The meeting will be at the Waverley Hotel, Southampton Row, London WC1. Before the meeting, at 6.15 p.m., there will be a buffet supper (charge 75p – students 40p). The discussion will close about 9 p.m.

Accountants and their friends are welcome at these meetings, whether or not they are members of the Fellowship.

COURSES AND CONFERENCES

Senior Management

'Management by objectives' is the title of a one-day course at the Piccadilly Hotel, London, on June 24th, organized by the Management Studies Centre. The aim of the course is to familiarize participants with the concepts behind MBO, its current practice and possible applications in their own organization.

Holding that management by direction and control cannot always be effective, the speaker, Mr E. A. Johns, B.SC.(ECON.), A.C.I.S., A.M.B.I.M., DIP. ED., will explain the contrasting approach to management which many companies find rewarding, namely, that the most effective way of getting results is by co-action rather than coercion. There will be case histories of successful and unsuccessful MBO systems, corporate strategy and methods of overcoming resistance to change.

Fee for the course is £25 covering lecture notes, coffee, lunch and tea. Applications should be made to the Programme Controller, Management Studies Centre, 14 Queen Victoria Street, London EC4N 4SY.

Electronic Data Processing

Designed for functional managers with little or no data processing experience, a two-day course on 'Basic data processing' will be held by the Management Studies Centre at the Piccadilly Hotel, London, on July 6th–7th.

After a general introduction to computers, lectures will be given on different approaches by manufacturers, software, hardware, programming, systems and operations departments, with one and a half hours on the final day of the course being devoted to questions and a summing up of all topics discussed. These sessions should assist managers to bridge the communication gap between the information they want and that which the computer is able to give. Hence, they should be able to use computers more profitably by a better understanding of their possibilities.

Fee for the course is £45, inclusive of lecture notes and all meals. Applications should be made to the Programme Controller, Management Studies Centre, 14 Queen Victoria Street, London EC4N 4SY.

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Special features are chapters on the audit of group accounts, the drafting of audit reports and qualifications therein, audit aspects of different classes of business, investigations and the case law relating to the duties and liability of auditors. The extensive appendices include examples of audit documentation. There is also a convenient summary of statutory and Stock Exchange requirements in relation to the presentation of annual accounts to shareholders. This summary is illustrated by a specimen set of accounts.

This book is published on behalf of the General Educational Trust of the Institute of Chartered Accountants in England and Wales.

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Time for Action?

THE latest stages in Upper Clyde Shipbuilders' affairs spotlight just one of the many problems besetting the UK economy. The Government is faced with a particularly cruel dilemma. Even if support to what Mr John Davies, in a less than tactful phrase, described as 'lame ducks' should be halted on economic grounds, the social consequences of that policy are not pleasant to contemplate.

One of the weaknesses of the Government's present economic policy is that its consequences in terms of recession and unemployment do not fall evenly over the economy. Experience has shown that a mild contraction in the scale of industrial activity in the most-favoured regions, e.g., the south-east, is felt with quite disproportionate force in the so-called development areas.

Not only for that reason, it is a matter for concern that efforts by both Labour and Conservative administrations have been expensive to the taxpayer and not particularly rewarding in terms of new employment opportunities. Just as the Government's present deflationary policy leaves some areas of the economy willing to buy off industrial disputes, so the consequences of adopting the TUC's and Mr Wilson's latest proposals for reflation would come up against the same problem of differential local pressures.

The Government's policy of refusing to reflate while the rate of pay awards remains far too high, is supported indirectly in the Bank of England's latest *Quarterly Bulletin*. There, it is emphasized that hopes of a rising output and investment from UK industry depend on 'containing the growth of domestic costs'. The most recent development, whereby companies are 'ready both to increase prices more rapidly than in the past and to reduce their labour forces' means that without a halt to excessive pay awards, prices will continue to rise and unemployment to increase.

Nor is much to be gained by generalized talk about the desirability of a reflationary policy and price control with some unspecified vague assurances from the TUC that the industrial unions will co-operate. It would be more helpful if its member-unions could put forward a constructive policy for genuine productivity agreements.

In his presidential address to the ICWA annual general meeting last week, reproduced elsewhere in this issue, Mr Stanley Woods reminded his audience that there were companies whose real incomes were insufficient to cover their capital replacement costs. Also, by the present policy of letting prices drift higher,

rather than tackling the real cause of the cost inflation, such companies were 'robbing' both the young, who have to make their way, and the retired who have to live on fixed incomes.

Inflation could not be allowed to continue at its present rate, just because, as Mr Woods observed, it may be 'the easy line of least resistance'. Costs must be contained and price rises slowed down. This is not only the problem of the industrial accountant, although throughout industry – despite recent developments – there is ample scope for cutting costs. It applies to both sides of industry; and not least it is for the Government to impress upon the public that the present economic situation can be improved only if sectional advantage is largely eschewed.

This simple fact has yet to be learned, but before long the facts of economic life will assert themselves. If Britain is to enter the EEC, the forces of change will be more unpleasant than would be the case if the UK economic institutions begin their adjustment now.

Reciprocal Recognition

THE collapse of the integration scheme has inevitably focused attention upon the limited extent to which the principal bodies of accountants recognize one another's qualification. Those who appeared last year to be on the verge of admission as chartered accountants have since suffered the embarrassment of discovering that their existing qualifications, *per se*, do not necessarily satisfy even the preliminary requirements of the English or Scottish chartered Institutes.

For a candidate not less than 27 years of age and with ten years' approved experience, the Council of the English Institute may waive its preliminary education requirements, and may also approve a reduction in the period of articled service to not less than three years, with or without exemption from the intermediate examination. These powers have already been used to allow suitable candidates to proceed direct to the final examination. Qualified accountants who are unable to satisfy this combined age and experience requirement are, however, obliged to produce evidence of their general education on the same terms as other applicants for articles.

Drawing attention to this apparent anomaly, a correspondent in the June issue of our contemporary, *Accountancy*, calls for the urgent replacement of the appropriate bye-laws. It would not be surprising to learn that the English Institute's Council has already given some thought to a more liberal attitude towards other professional qualifications, not necessarily in accountancy alone – possibly on the lines of the University of London 'mature students' clause, whereby a candidate not less than 21 years of age and in possession of a qualification awarded by examination for the practice of a recognized profession, is deemed to have satisfied the matriculation requirements. Changes in the bye-laws, however, must of necessity await the outcome of the Institute's general review of its future, on which a statement is expected shortly. A spokesman for the Scottish Institute confirmed that the eligibility of candidates for indentures depended entirely upon their scholastic and academic performance, and that no concessions were available on the basis of professional qualifications alone.

In a speech to the Nottingham Society of Chartered Accountants earlier this year (*The Accountant*, March 25th) the immediate Past President of the English Institute, Mr C. Croxton-Smith, M.A., LL.B., F.C.A., stressed the importance of preserving the freedom of accountancy as an international profession, and suggested that recognition might be extended to overseas accountants practising in Britain. Before this becomes anything more than a possibility, there is a job to be done nearer home.

Modified R-Rapture

IT says much for the calibre of the administration of Mr E. R. Nicholson, F.C.A., as receiver of Rolls-Royce, that unsecured creditors can now look forward to a material dividend – estimated as high as 50p in the £, although it has been emphasized that this must be subject to many qualifications, in particular the assumption that the RB-211 contract will be successfully re-negotiated.

Mr Nicholson's responsibilities as receiver are, of course, primarily to the secured creditors on whose behalf he was appointed. A statement issued last week by Royal Exchange Assurance as trustees for the debenture stockholders confirmed that these will be repaid in full, together with accrued interest to the date of payment. It is hoped that the collection of book debts will proceed at a sufficient rate to enable 50 per cent of the debenture stock to be repaid by September this year.

Whilst the stage may yet be reached at which it would be desirable for unsecured creditors to have separate representation, the absence to date of any formal moves for the appointment of a liquidator is

in itself a remarkable testimonial to Mr Nicholson's negotiating powers and breadth of vision. Mr K. D. Wickenden, F.C.A., who represents a large number of unsecured creditors, paid tribute this week to the courtesy and consideration which his committee had received throughout; Mr Nicholson, he said, had gone well beyond his strict obligations in this regard. Whilst the Rolls-Royce collapse is known to have seriously embarrassed a number of smaller suppliers and sub-contractors, it is to be hoped that their favourable dividend prospects will enable them to obtain further accommodation for the present.

Despite these developments, the position both of the receiver and of the company is still one of some delicacy. Negotiations and legal disputes are pending in various parts of the world, whose successful outcome is of considerable importance to both secured and unsecured creditors. In this and in other respects, an enforced liquidation at this stage might well be disadvantageous.

The position of the company's worker-shareholders is still uncertain, pending an examination of the terms on which these shares were issued. It has already been suggested, as a basis for argument, that these people are entitled to special consideration, and that their position is in some respects analogous to that of loan creditors rather than holders of risk capital; but this has yet to be determined as a matter of law. It will be understood that anything in the nature of *ex gratia* compensation in this quarter could only be at the expense of the unsecured creditors.

CURRENT AFFAIRS

Cost Accountants' New President

THE new President of The Institute of Cost and Works Accountants is Dr James M. S. Risk, B.COM., PH.D., C.A., F.C.W.A., J.DIP.M.A., F.C.I.S., F.B.I.M., F.I.O.M., M.I.M.C., who, as his designations indicate, is a man of many professional interests. Qualifying first as a Scottish chartered accountant, he was admitted to membership of the ICWA in 1941, becoming a Fellow in 1951.

Educated at Glasgow Academy where he was captain of rugby and winner of the mathematics medal, Dr Risk went on to study at both Glasgow and Edinburgh Universities, graduating from the latter as Bachelor of Commerce, a medallist in the class of organization of industry and commerce, and a prizeman in banking history and law. Subsequently he undertook research for which he was awarded a doctorate in philosophy by Edinburgh University.

Following his early service with a firm of chartered accountants in London, Dr Risk's appointments have included cost accountant with the Ministry of Supply; chief accountant of the Middle East Board of the United Kingdom Commercial Corporation; first head of the Department of Industrial Administration, Royal College of Science and Technology (now the University of Strathclyde); first chief accountant of the Southern Gas Board, where he was involved with the introduction of modern management accounting methods; and financial controller of The Brush Group (now part of Hawker Siddeley). He is now managing director of the management consultancy and training companies, Risk & Partners Ltd and Management Courses Ltd.

Dr Risk has for long been active in ICWA branch affairs: he was chairman of the Hampshire sub-branch, being elected the first president when it became a full branch. On leaving Hampshire he joined the committee of the London Branch, of which he has twice been president; he has also been chairman of the London and South East England Co-ordinating Committee. In 1956 he was awarded the Institute Plaque in recognition of his services.

An ICWA Council member for a number of years, he has been a member of nine committees, and as chairman of the examinations committee has been much involved in the design of the new syllabus, announced in 1969, which became operative on June 7th this year. He was also a principal architect of proposed long-term changes in the examination syllabus, the final version of which is expected to be operative in about four years.

When he is not lecturing at conferences and seminars, advising, or writing, Dr Risk finds recreation in gardening, walking and hill-climbing. In his early days he was a keen rugby player (scrum half) for top clubs such as Bristol, Bath and Rosslyn Park. Both on the rugger field and in the presidential office, therefore, he has emulated his brother William, who was reserve scrum half for Scotland, and ICWA President in 1960–61.

Dr Risk has two sons and a daughter and lives at Amersham, Bucks, where he is the second doctor in the house, for his wife is one of three doctor – of medicine – daughters of a doctor father.

The new Vice-Presidents of the Institute are Mr A. W. Howitt, M.A., F.C.A., F.C.W.A., J.DIP.M.A., and Mr C. A. Herring, B.SC.(ECON.), F.C.W.A., J.DIP.M.A.

Birthday Honours for Accountants

SEVERAL members of the profession featured in the Birthday Honours announced last Saturday. In particular we offer our congratulations to Mr A. G. B. Burney, O.B.E., B.A., F.C.A., senior partner in Binder Hamlyn & Co, Chartered Accountants, who is created Knight Bachelor. Other honours include:

CBE

Mr D. M. Clement, F.C.A., board member for finance, National Coal Board. Mr B. W. Goodman, F.C.A., a director of Marks & Spencer Ltd and a member of

Mr A. G. B. Burney, *Knight*

Mr D. M. Clement, *C.B.E.*

the Decimal Currency Board. Mr J. S. Nisbet, O.B.E., T.D., C.A., managing director, Linhas Corrente SA, for services to British interests in Brazil. Mr L. V. D. Tindale, C.A., director and general manager, ICFC.

OBE

Mr Sidney Elmitt, F.I.M.T.A., county treasurer, Flintshire. Mr James R. Finnie, F.I.M.T.A., lately town chamberlain, Greenock. Mr George W. Hamilton, A.C.C.A., chief accountant, Department of Trade and Industry.

MBE

Mr W. E. Harbord, F.C.A., finance officer, King's College Hospital.

We also congratulate Mr C. Evan-Jones, M.B.E., Secretary of The Institute of Chartered Accountants in England and Wales who receives the CBE.

Mr L. V. D. Tindale, *C.B.E.*

Mr C. Evan-Jones, *C.B.E.*

International Influence of MCA

BRITISH management consultants are now represented almost everywhere in the world either by local offices or by associated firms.

Presenting the 1970 annual report of the Management Consultants' Association, its chairman, Mr Brian Maynard, M.A., F.C.A., F.C.W.A., claimed that, of the 20 largest management consulting organizations in the world, no less than ten were MCA members. Despite difficult economic conditions during the latter half of the year, over £20 million of high quality advice and assistance was provided to MCA clients at home and abroad, representing a growth rate in fee income of 21 per cent.

Amongst recent admissions to membership of MCA has been Spicer & Pegler & Co, an unlimited company incorporated in 1964. Mr R. N. D. Langdon, F.C.A., of Spicer & Pegler & Co, becomes a member of the MCA council.

In Mr Maynard's view, the consultancy market for 1971 will be marked by a greater use of multi-discipline teams on the more complex assignments where no one single approach is adequate; an intensified demand for assistance in introducing better corporate planning procedures; and an increased demand for assistance in the analysis and remedy of liquidity problems.

The Chairman of MCA for 1971 is Mr John Gratwick, B.SC.(ENG.), vice-chairman of Urwick Orr & Partners Ltd. Mr P. G. Richardson, M.B.E., B.SC., of McLintock Mann & Whinney Murray, becomes Vice-Chairman.

Professional Ethics in Scotland

ACCOUNTANTS with practical experience of the profession both in England and Scotland will hardly need to be reminded that there may be significant differences, both of law and of practice, on either side of the border. There is, however, a substantial measure of agreement on fundamentals, and two statements of professional conduct issued recently by The Institute of Chartered Accountants of Scotland to its members – No. 3, *Changes in a Professional Appointment*, and No. 4, *Unlawful Acts or Defaults by Clients of Members* – appear to follow very closely the corresponding pronouncements already made by the English Institute.

In Scottish law, the position of an accessory after the fact (or, to use the Scottish term, 'accession') exists only in cases of treason, and thus a Scottish accountant would not be guilty of an offence by omitting to give information of any crime which might come to his notice in the course of professional practice after it had been committed. Were he, however, to advise his client to commit any crime or statutory offence, or to help in the planning or execution of such an offence, he would himself be guilty of accession. The Scottish

statement also follows the English (*The Accountant*, November 16th and 30th, 1968) in suggesting that an accountant who was consulted by his client as to his proper course of action on being charged with a crime or statutory offence would not be contractually free to disclose this information.

In relation to the normal professional communication upon a change of auditors, the Scottish Institute endorses the view already expressed elsewhere[1] that a communication between the outgoing auditor and his intended successor would be protected by qualified privilege, provided that the client company has consented to the disclosure of its affairs in this way. Where this consent is refused, the existing auditor is recommended to confine himself to stating that the company or its directors have refused to give him authority to discuss its affairs with his proposed successor, in which event the latter would normally be expected to decline nomination. As with other accountancy bodies, the Scottish Institute makes it perfectly clear that the duty of professional communication exists whether or not the proposed successor is also a member of the same Institute.

Portage Bill

THE financial crisis of the Mersey Docks and Harbour Board was an extreme example of a major problem now facing many British port authorities. The immediate aspect of this is the necessity to borrow, not so much to finance new developments, but to redeem short- and long-term debt as it falls due. Most ports are not able to offer saleable real property as security, and must depend on their net cash flows or profitability performance for market confidence.

The need for port authorities to strengthen their financial position and build up adequate reserves is stressed by the National Ports Council (whose director of finance is Mr P. J. K. Webster, B.SC.(ECON.), F.C.A.) in their report for 1970, published last week. Few port authorities, in this generation at least, have been able consistently to maintain gross revenues at high enough levels, and been able to contain their expenditure sufficiently to generate net cash flows adequate to cover depreciation on a realistic basis and to build up even modest reserves.

Operating costs, and wages in particular, have risen more sharply in the ports than in industry generally. The general rise in interest rates has borne particularly heavily on ports faced with the need for heavy capital investment which has had to be financed by borrowing. Some authorities are engaged at the moment on strengthening their costing procedures and budgetary controls, in eliminating their less profitable activities, in realizing saleable assets no longer of use to them, and in setting longer-term financial targets. These will all clearly help in the longer term, but in the immediate future the Council sees increased charges as an essential ingredient in putting ports into a really strong financial position.

The effect of the level of port charges upon port business is being studied to establish just what effect port costs, as reflected in the charges to users, have on the movement of traffic through the ports, and also on the competitiveness of the British exporter. Whilst it is too early to draw firm conclusions, the Council believes that the fast and reliable turn-round of ships is of prime importance to port users, and that the prices charged by port authorities are likely to be of secondary importance.

Protection of Shareholders

ALTHOUGH shareholders may own the companies in which they have invested, they often have little say in the conduct of their affairs. It was doubtless for this reason that the Companies Bill introduced in 1969 by Sir Brandon Rhys Williams (*The Accountant*, July 5th, 1969, and subsequent issues) attracted so much sympathetic notice, both in and outside Parliament.

Despite representations from such influential bodies as the Accountants Joint Parliamentary Committee and the Chartered Institute of Secretaries – whose doubts were shared by the then Minister of State at the Board of Trade – the 1969 Bill, which successfully completed its committee stage but was run out through lack of Parliamentary time, suggested that some measure of protection for the shareholder was at least a possibility.

Last week Sir Brandon obtained leave to introduce a further Bill which is intended to apply to the thousand or so largest public companies. Such companies would be required to appoint not less than three non-executive directors who would be obliged to present an independent annual report to the shareholders.

According to its sponsor, the intention of this measure is to give legal expression to the phrase 'non-executive director', to confer upon such directors a specific function, and to give shareholders a practical means of securing independent and competent supervision of the management. It does not attempt to define precisely the nature or content of the non-executive directors' report, the expectation being that shareholders – and particularly the institutional shareholders – will make known their own wishes in this respect.

The Bill has been set down for a second reading on Friday, June 18th, but appears to have little chance of completing its stages in the present session of Parliament.

Accounting for the Nation

IN the aftermath of the Keynesian revolution in economic theory, there followed the development of national income accounts. More recently, however, increasing attention has been paid to the compilation of data relating to the ownership of various forms of assets and liabilities.

The most important such study, *The Wealth of the*

[1] *Ethics and the Accountant* (Gee & Co Ltd, 1969) at p.57.

Nation, was prepared by Professor Jack Revell, then of the Department of Applied Economics at Cambridge in which a large system of balance sheets covering more than 30 sectors of the economy was compiled for the period 1957–61. This work has now been extended to 1966 and the results appear in an article 'National Balance Sheets and National Accounting' – a progress report published in the May issue of *Economic Trends*.

It is estimated that between 1957 and 1966 the national wealth of the UK, valued at market prices, rose from about £59,000 million to nearly £140,000 million. Much of this increase was due to the appreciation in property prices.

Expressed in *per capita* terms in 1966 each individual represented £2,500 of wealth. The corresponding *per capita* figure in 1957 was £1,150; there was thus an increase of 120 per cent. Nevertheless, as the authors point out, the concept of real national wealth does not have much meaning since it implies that all national wealth is capable of simultaneous sale.

In the same issue of *Economic Trends* another article compares taxes and social security contributions during the years 1967–69 for a number of the major countries. In that period the UK showed one of the largest increases in the proportion of the gross national product taken in all taxes and social security contributions, from 37·1 to 42 per cent. If social security contributions are

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Forgotten Men

by An Industrious Accountant

I'VE always wanted to write a history of our company. The old pictures on the boardroom walls used to fascinate me, because their faces sheltered mysteries which should be solved. Most of them were barely names; they had become unknown strangers, yet we hundreds of employees owed our careers, and probably our children's futures, to the men behind the painted canvases.

Modern experts argue that history should no longer be a rigmarole of kings and battles and treaties; what should matter is how ordinary people lived and loved, what they wanted, worked for, and died for. With this I agree, but we should also know the calibre of the merchants whose decisions shaped our destinies.

I once asked the chairman about the company's founder – the haberdasher who opened his little shop here a century ago. Where did he come from? What was he like? The chief reflected vaguely, not really concerned. Quite an adventurous chap; lots of odd ups and downs, he recollected; his own aunt used to tell hair-raising tales about the chap's early struggles, but personally he'd forgotten 'em.

The tired old man in the Victorian frock-coat and cravat, sagging in the big chair, revealed nothing of his story.

The deputy-chairman was taciturn when questioned, but to my knowledge he has a couple of hefty skeletons rattling away in his own family cupboard, so he's unlikely to welcome publicity.

Another portrait shows a diffident little man with dundreary whiskers peering nervously out from some doubtful marble pillars. He looks scarcely the type to set the Thames on fire, but his decade in the chair saw the richest accumulation of profits in our records.

I sat up late one evening, listing from musty minute books all our directors by dates of appointment and retirement, and graphing our annual profits from our beginnings. Then I tried to chat up our older employees for personal reminiscences, old or recent.

It proved more than difficult. Finding time for talk was a major problem in itself. Some of the people were reticent, some wary of making trouble, and all forgetful. Many had never in their lives actually spoken to a director. Too often they'd been juniors, only hearing sporadic gossip; too often they fumbled, or contradicted themselves, or were obviously hedging.

Little flashes of anger were sparked off by references to the bitter strike in the twenties, or the mass sackings following that disastrous year's trading in the thirties. There were wry jokes about a chairman who lost the week's payroll on the Derby in King Edward's day, or about the post-war power struggle, or the private secretary who got the fur coat, but adequate details were lacking. They were retailing legends, unreliable except as background.

I listed some costs and dates for our various extensions of business and asked Prinny for help, but he became alarmed. Now, now, don't rock the boat, he grinned; no private-eye stuff here; dammit, there'd be some red faces if we all spilled the beans. After all, let's face it, who's worried now?

I said loftily *Si monumentum requiris, circumspice*; but clearly nobody cared who erected the monument. It reminded me of Rider Haggard's description of the old Zulu custom called *hlonipa*, whereby the names of certain dead kings must never be spoken, as a mark of respect. They became mythical, obscure, and then forgotten.

It seems a pity to let our own story go the same way.

excluded in this comparison, then the UK figures show an even larger increase, from 31·7 to 36·3 per cent and, with the exception of Denmark and Sweden, the UK has the highest level of taxation in relation to the gross national product.

Upper Clyde Liquidation

THE Government's refusal to stave off the collapse of Upper Clyde Shipbuilders at the taxpayers' expense was as predictable as the fury of an Opposition which, when in power, was not able 'to justify the investment of further public funds in this enterprise in the face of the many competing demands on national resources'.

According to figures quoted in Parliament this week by Mr John Davies, M.B.E., F.C.A., J.DIP.M.A., Secretary of State for Trade and Industry, UCS had 'absorbed and lost' some £20 million already granted under former arrangements, and existing further liabilities exceeded £9 million. The company anticipated a deficit of between £4 and £5 million by the end of August, and was in difficulty over finding cash to pay its weekly wages.

In the Scottish Court of Session last Tuesday, Mr Robert Courtney Smith, M.A., C.A., a partner in Arthur Young McClelland Moores & Co, of Glasgow, was appointed provisional liquidator of UCS. He was admitted to membership of the Scottish Institute in 1953 and is a member of its Glasgow local committee.

Chartered Public Service Accountants

IMTA Members Approve Council Proposals

AT their annual general meeting and conference held at Torquay last week, members of the IMTA overwhelmingly endorsed by 553 votes to 73, the Council's proposals to petition for a Supplemental Charter and Bye-Laws [*The Accountant*, April 1st].

If granted by the Privy Council, the Supplemental Charter and bye-laws will provide for the title of the Institute to be 'The Chartered Institute of Public Finance and Accountancy' with membership denoted by the designation 'Chartered Public Service Accountant' (CPSA). There would be one class of professional accountant membership, and the classification of members as fellows and associates would cease.

President's Address

In speculating on the Government's possible intentions with regard to new sources of local government finance, the President, Mr F. Stephenson, F.I.M.T.A., noted that most suggestions aim at either increasing existing forms of taxation or a transfer of specific sources of revenue.

He wondered in which of these the Government would give local authorities any degree of freedom which might conflict with national economic policy, or allow them to retain without restriction the full elasticity of an assigned revenue. He saw the most feasible compromise as accepting the rating system – improved as far as possible – while seeking minor supplements from sources which in themselves would be a subject of debate, but which would not be an addition to the general body of taxation.

In considering methods of financing local authority capital expenditure, the President was concerned with the increasing indebtedness of local authorities which had risen from £4,596 million at March 31st, 1960, to £11,320 million at March 31st, 1970. Looking at the effect of loans spread over an average period of 30 years during a time when expenditure can be expected to increase by an average of 6 per cent per annum over the whole period and with debt charges represented by an 8 per cent annuity, he calculated that debt charges would approach annual expenditure in the 15th year and exceed it in the 18th year.

'Thereafter, one is constantly paying more, and if expenditure ceased the charges would continue, albeit at a diminishing rate, for a further 30 years. Even though the burden of earlier annuities may be reduced in real terms, this is small consolation when the position is nevertheless reached that present total debt charges equal present annual expenditure. It is even less consolation when one has already passed the position of equality and there is only a worsening situation in the future to look forward to, if capital investment continues at the current rate.'

The President ended his address with a call for Government help to enable local authorities to meet capital expenditure from revenue.

Conference Papers

The first paper was given by Dr D. E. C. Eversley, Chief Planner (Strategy), Greater London Council, and Professor of Population Studies, University of Sussex, on 'Cutting our Cities down to size'.

Dr Eversley enumerated the difficulties facing our large cities. They are losing population, he said, and the nature of the out-migration stream is such that on the whole they are bound to lose more of those who are potential owner-occupiers, and fewer of those who look to the local authority for housing help. They are losing more of the relatively young and more highly skilled or professionally qualified, and retaining more of the older people, more of the less skilled, the unsupported and 'problem' families. He considered that the same applies to industry; it is the technologically more advanced, expanding industries that are tempted to move to development areas while the firms that lack capital, credit-worthiness and expansion prospects that are most likely to stay.

The speaker pointed to the unfavourable results on the rateable capacity of the large cities, observing that rateable values have risen less fast in London and places like Birmingham, Liverpool and Manchester, than in the country as a whole. He did not see the schemes operated by the Government and the Greater London Council, which are designed to obviate some of the inequalities, as removing the essential imbalance which arises.

Rating anomalies

In fact, some of the anomalies are serious. Inasmuch as part of the rate equalization system is based on an area's load of children, more rapid out-migration of families with young children may disproportionately reduce that area's entitlement. A city's costs, in general, are not simply population-related, so that in no case would one obtain a reduction in necessary public expenditure proportionate to the loss, for instance, from stagnant or declining domestic hereditament values. Parks, museums, open spaces, the maintenance of streets, lights and sewerage services become no cheaper just because the population is smaller.

Turning to expenditure, the Professor felt there could be very little doubt that needs are greater in areas with relatively low incomes than those with higher incomes. He also felt that needs have changed.

'The transistor radio brings music, of a kind, into every home, few children are now orphaned and running hot and cold water are almost ubiquitous, with the washing machine well on the way to being so. But there is still the relative deprivation of the same people who excited the municipal endeavour and private liberality of our grandfathers.' The movements described would exacerbate the conditions of these people; the more concentrated they become, the less likely it was that private provision would be made for them; the less likely also that their local authority would be able to step in, even if it wanted to do so.

Regional regulation

In conclusion, Dr Eversley put forward some possible solutions which he felt might be discussed in the next few years. First, the composition and speed of movement within the regional framework needed to be more carefully regulated.

'The first set of solutions to this urban dilemma is therefore concerned with organizing migration rather differently, both for people and for jobs. Broadly, it means that we have to accelerate the dispersal of white collar jobs and slow down that of manufacturing jobs, from some of our main centres. Conversely, it means making arrangements to ensure that the less skilled workers and even families without a wage earner and other disadvantage groups, are given an opportunity to move to those areas where growth and fresh investment give them a better chance in life.

'We must not make the older part of our larger cities totally impossible for the middle income groups, the younger recently married professional and white collar workers, the more educated part of the population. This has long been recognized in New York, where middle-income housing has been eligible for federal and state aid. It has begun to happen here, in the form of higher-rented council properties and aid to cost-rent housing associations catering for families earning £30 to £50 a week.'

Simultaneous sessions

On Thursday morning, June 10th, the conference divided into four simultaneous technical sessions for the presentation of papers by members.

In a paper entitled 'Local authority capital programmes', Mr E. J. F. Lynch, F.I.M.T.A., Treasurer, Crawley Urban District Council, discussed the contents of circular 2/70 of the Department of the Environment which has altered government controls on the capital spending and borrowing by local authorities. Mr Lynch is a member of the joint working party which assisted the Department with the compilation of the circular and he pointed out that local authority associations had for some time been asking for a change in the detailed control which the Government exercised on local authority capital expenditure through the loan consent procedure.

As from April 1st, 1971, approximately £364 million per annum of local government capital expenditure on such activities as central area redevelopment schemes, municipal buildings, minor road improvements and the equipment of schools will be subject to new block loan sanctioning procedure. Under this new procedure, an annual block allocation of loan sanction is made to London boroughs, county boroughs and county areas, who are then free to allocate the sum to such local schemes as they think fit.

Many useful lessons could be learned as the result of the need to run-in this entirely new system during the year 1971–72, and Mr Lynch hoped that any review would confine itself mainly to arrangements up to April 1st, 1974, when the new local government areas come into being.

Allocations to individual areas would eventually have to be made on a *per capita* basis, leaving authorities to work out their own five-year programmes on the assumption that quotas after the first year would be stable to within, say, 10 per cent. He also felt that a large project pool of at least double the present size would be essential for the next two years.

Measuring output

Mr J. V. Miller, M.A., F.I.M.T.A., County Treasurer, Gloucestershire County Council, spoke on 'The measurement of output of public services'. Like many other local authority treasurers at the present time, he was concerned about the effectiveness of the amounts spent by local government and the way in which this effectiveness could be measured.

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He contrasted transportation, where the need for output measurement is recognized – and not too difficult – with the social services and with education, which do not lend themselves so readily to the establishment of quantitative measures. In Gloucestershire, the measurement of effectiveness in education is based on the education programme structure, which sees the service as in essence one of assistance – first to the parents in the upbringing of their children, and later to the children themselves, when grown to adolescence and still later to adulthood. In the absence of any agreement on other criteria it has been thought worth while to gauge the effect of the service by asking those who have received it to say to what extent they have been helped. Market research and statistical sampling should come more and more to the fore as output measures are developed.

Mr Miller pointed out how important it was for local authorities to set standards of output. He instanced the use of intermediate measures in the fire service where 'time taken to arrive at fires' is one which is used by the Home Office and one in which high standards have been achieved. In conclusion, he drew attention to the fact that the development of output measures in the public service will cost money. Research in local government is mostly conducted on a shoe-string budget and it must be recognized that more is needed to set up a satisfactory system of output measures.

Hospital finance

The longest paper of the conference, entitled 'The finance of the health services', was submitted by Mr R. C. Sharphouse, F.I.M.T.A., F.H.A., Treasurer, North-West Metropolitan Hospital Board.

Mr Sharphouse provided delegates with a wide-ranging survey of the organization and finance of the Health Service. He submitted statistics which showed that the United Kingdom is well behind four other major western industrial countries in the proportion of its national income spent on health services and pointed out that, by comparison with other services, health and welfare comes off badly. Between 1964–65 and 1968–69, the average annual increase in education was 4·9 per cent, in social security 8·3 per cent and in health and welfare 3·9 per cent. Planned increases for later years for health and welfare were expected to be only 3·5 per cent in 1970–71 and 4·3 per cent in 1971–72.

Mr Sharphouse contended that while the funds available for the service are limited by Government decision, the needs are considerably greater than can be afforded. He quoted from a BMA report that the restriction of finance made available to all sections of the health services had retarded full realization of the potential created by the tremendous scientific advances of the 20th century. While he hardly doubted that the better use of resources through better organization and management is feasible, he felt the time factor to be of crucial importance; massive savings would need massive changes, and these take a long time to achieve. He suggested, however, that as personal spending on health service was exceptionally low in the United Kingdom, private consumption might be called upon, through taxation, to contribute more directly to the National Health Service.

Councillors on the cheap

Mr Roland Freeman, B.SC.(ECON.), F.C.I.S., formerly finance chairman of the GLC, continued his attack on non-payment of councillors in his paper 'Financing the elected member'. Local government, he said, was plainly the odd man out in its treatment of those who serve it.

Mr Freeman was unable to accept the logic of those who feel that non-payment of councillors helps to attract the 'right' people, whilst payment of members of development corporations, rent assessment committees and other public boards was regarded as a normal event. The position of the same person receiving a relatively substantial payment for membership of a board and no payment at all for membership of a local council, while yet performing very similar duties, was plainly illogical. He instanced the case of a former GLC housing chairman who received £2,500 as chairman of a new town corporation, but nothing for the vast housing responsibilities at County Hall.

He called for the introduction of a flat-rate allowance for all councillors to cover their attendance at meetings and constituency case work. In addition there should be salaries for those members who carry special responsibilities as chairmen or vice-chairmen of committees and Council. Such payments, he suggested, should be free of ministerial control and local authorities should have discretion to make salary payments within a formula providing a maximum sum based broadly on the size of the authority.

Ratepayer resistance

The final session on Friday morning was addressed by Mr Patrick Jenkin, M.P., financial secretary to the Treasury. He reiterated the Government's intention of controlling the totality of public sector expenditure. So far as local authority spending was concerned the Government proposed to rely for control on the resistance of the local ratepayers:

> 'Here I must sound a warning note. Earlier I talked of the search for new forms of local revenue. If we are to continue to rely on the resistance of local ratepayers as the chief thing which is controlling the overall level of authorities' current expenditure – that is, if the "howling point" is to remain as effective in the future as I believe it has been in the past – would it not follow that to place a new and substantial source of revenue in local authorities' hands, perhaps to the extent of allowing a reduction in the proportion financed by the government grants, must weaken political control?
>
> 'In other words, might not one of the penalties of a new and enlarged area of local taxation, broadening the basis of local revenues, be that the Treasury would be – I'll say no more than "tempted" – in the interests of overall management of the economy to take a closer look at the total of local authority spending?'

Acknowledging that the Green Paper on Local Government Finance was overdue, he stated four criteria which must be met by any new source of local revenue:

(1) The prime requirement is that any new local tax must be one which can be varied locally. If the rate of tax is to be controlled by Parliament, then it simply becomes an additional and very inefficient form of grant in reduction of local taxation.

(2) It must be paid by the local electors, otherwise the democratic mechanism is broken. For this reason, the Treasury would look pretty coolly at any form of employment tax paid by employers.

(3) It cannot be said that changes in its rate would have major implications for the management of the economy.

(4) Any new local tax must have a big enough yield and be cheap enough to collect to make worth while the upheaval which its introduction would cause.

Annual Report

The following are extracts from the report of the Council for 1970–71:

The economic situation

THE past year has been marked by a high rate of inflation. This inflation has, unusually, been accompanied by growing unemployment and low productivity. The outstanding factors have been the extraordinarily high levels of wage claims made, and the high rates at which settlements have been reached. Employees have sought not only to recoup past price rises, but to cover themselves against future inflation.

Although it is frequently claimed that inflation is a present world-wide phenomenon from which we cannot be immune, information from OECD indicates that inflation in Britain has proceeded significantly more rapidly than elsewhere, and that Britain's trading competitiveness is at risk.

Wage claims during the past year have been accompanied by considerable industrial strife, not least in the public services where there had previously been a long strike-free tradition. The impact of inflation on the public sector has already been revealed significantly in substantial increases in local authority rates and in charges and tariffs for public services generally.

Local government reorganization

The Government's proposals for the reorganization of local government in England, Scotland and Wales were published in February 1971 [*The Accountant*, February 25th]; and these are to be followed by a Green Paper on the financing of local government which had not been issued at the time this report was prepared. The Government intend to introduce legislation implementing the structure proposals in the 1971–72 session of Parliament with a view to the introduction of the new structure on April 1st, 1974, except that the new Scottish system will come into operation in 1975.

All the proposals provide for a two-tiered structure of local government throughout Great Britain, but with differences between the three countries. In England, there will be 44 new 'counties' (outside Greater London), with populations ranging from 251,000 to 2,901,000. Six of these will be metropolitan counties for the areas of Merseyside, South East Lancashire and North East Cheshire (SELNEC), the West Midlands, West Yorkshire, South Yorkshire and the Tyne/Wear area. Within all counties there will be districts, defined for those in the metropolitan counties, but not in the rest of the country as yet although the White Paper states that they will generally have populations of at least 40,000. The areas of these districts outside the metropolitan counties are to be recommended by a Local Government Boundary Commission. Parish councils will continue in rural areas, but the Government will discuss with the local authority associations the question of the reflection of community interests in urban areas.

The distribution of functions between the two kinds of authority seems likely to give rise to financing problems. With the transfer of highways to the county/regional level of government, the district authorities are left with housing and redevelopment as their major common functions, and many other functions will be undertaken concurrently. Consequently the expenditure on these two services, which varies widely, will create a much wider range of differences than exist in the present form of local authorities, and there will be difficulties in providing an independent revenue base for district councils. Although there are advantages in concurrent powers the wide use of concurrent powers proposed will also tend to complicate financing arrangements by confusing the incidence of expenditure. It will also tend to increase expenditure, make accountability less clear and hence diminish responsibility.

The Government recognizes that the time-table it proposes is an ambitious one, and certainly successful implementation will demand a great deal of sustained effort from local government members and officers over the next few years.

Local government finance – rates

An extension of agricultural derating without compensation for local authorities is proposed by the Rating Bill 1971 which will free from rates certain buildings used for the rearing of livestock for the production of food, wool, skins or fur or for their use in connection with other agricultural operations. It is estimated that as a result rateable values of local authorities in England, Wales and Scotland will be reduced by up to £1 million. The Institute is concerned about this further erosion of the rating system, and considers that financial aid to the agricultural industry should not be financed through rates.

The Institute has considered whether the rating system could be improved by the use of a capital value basis instead of the present rental value basis for determining rateable values, and concludes that for domestic property the balance of advantage lies in the adoption of the capital value basis. For properties other than domestic, the Institute considers that, since more complex technical issues are involved, a thorough inquiry into a possible change to a capital basis should be undertaken. With a dwindling private rented market for domestic property subject to a variety of rent control arrangements and with the growth in owner-occupation, rental values have become increasingly difficult for ratepayers to understand. Valuations based upon ascertainable evidence such as sales would be more comprehensible to the ratepayer, and should do much to restore public confidence in the rating system. The Institute appreciates that a changeover to capital values would create shifts of incidence, but considers that transitional arrangements could readily be devised to minimize their effects if this should prove desirable.

Computers

The Institute has considered the report and recommendations of the computer panel of the Local Authorities Management Services and Computer Committee 'Computer development in Local Government', which after considering possible alternative courses of broad development recommend that local government should work towards the development of a limited number of data processing centres, largely autonomous operationally, together with some means of co-ordinating their development and solving common problems. The Institute's preliminary comments were:

(*a*) It would be imprudent to reorganize ADP facilities in advance of local government reorganization generally, although agreement and the study of some of the recommendations would be desirable in advance of reorganization.

(b) It would be uneconomical if each of the increasing number of independent computer installations at present were to be developed to provide the wide range of facilities which future local authorities will require.

(c) Formal co-operation between local authorities on the grounds of economy and efficiency and of compatibility is necessary if the development of software especially data banks is to enable local government to make adequate progress and keep to a minimum the substantial resources required.

(d) The voluntary development of co-operation between local authorities needs to be supplemented by a co-ordinating body for local government as a whole but the constitution membership powers, functions and resources of such a body need to be very carefully defined and controlled to avoid the danger of initiative, responsibility and accountability passing from individual local authorities.

Following the receipt of comments from various bodies the LAMSAC computer panel issued a statement clarifying certain features of its proposals. The panel felt that it was essential for local government to agree as soon as possible on the future pattern of computer development. It stressed its view that whether reorganization of local government was imminent or not, there was a definite need for machinery to investigate the increasing use of computers and for more co-ordination of effort. It was not dissuaded from its view that development should be towards a limited number of joint data processing centres to avoid the waste of scarce resources and to enable small authorities at present not able to use ADP facilities to do so. It regarded the changes to be evolutionary rather than revolutionary and felt that the governing bodies of each joint data processing centre should comprise representation by the local authorities concerned. Regarding the loss of autonomy on the part of individual local authorities it felt that any such loss would be more than compensated for by the benefits of this development.

Overseas

The Institute co-operates with the Overseas Development Administration of the Foreign and Commonwealth Office and the British Council in arranging training courses and attachments for students from overseas and in providing attachments with local authorities for visitors from abroad. Regular group study attachments to finance departments are arranged for students attending the Overseas Development Administration courses in Public Accounts and Audit at Wandsworth Technical College. The Council of the Institute wishes to place on record its gratitude to the local authorities, their treasurers and finance staffs for their ready co-operation and assistance with these attachments.

In association with the British Council, the Institute in September 1970, organized a three-month course in 'Government Accountancy and Audit' for senior finance officers from 20 overseas governments. The course, which was designed to provide an appreciation of modern concepts of financial planning, accountancy, audit and management techniques, proved most popular with the members. The Institute is indebted to all the lecturers who participated in the course and in particular to the Civil Service who supplied a considerable number of lecturers in various specialist fields.

The Institute will again take part in the British Council Taxation course in October 1971. This is a three-month course of which five weeks is spent on attachment with the Board of Inland Revenue, HM Customs and Excise or a local authority.

International Institute of Public Finance

The Institute was represented at a conference of the International Institute of Public Finance in September 1970, in Leningrad, by the Secretary. The conference was attended by 200 persons representing 49 countries, and considered, *inter alia*, public grants economy; project appraisal; and definitional differences between east/west countries in relation to public finance.

The International Institute of Public Finance provides a forum for the interchange of information on developments in different countries and also between academics and executives concerned with public finance and financial administration. Both the growth of public expenditure in most advanced countries and the closer economic relationships between countries – particularly in Europe – make it probable that the value of links with this organization will be of increasing significance in the future.

The accountancy profession

The last of the six accountancy bodies to do so, the Institute of Chartered Accountants in England and Wales, held a postal vote in August 1970 on the proposals for the scheme for the development of the accountancy profession in Great Britain and Ireland. The result was that the resolution to give effect to the integration proposals failed by a large margin to receive the required majority of the members. [*The Accountant*, August 20th, 1970.]

The Institute, in not wishing to lose the advantage of the spirit of co-operation and common interest which the profession built up during the negotiations, stands ready to co-operate in matters of common concern with those other leading accountancy bodies which are prepared to improve the standards of education and training of the profession, to require the members to maintain the highest professional technical standards, and to serve the interests of the public and the profession.

The future of the Institute

Following the failure of the integration proposals, the Council formulated proposals for the future of the Institute, which were sent to members in outline in October and November 1970 and discussed at a meeting of branch and section representatives in January.

Specific proposals embodied in a draft charter and bye-laws for 'The Chartered Institute of Public Finance and Accountancy' were sent to members at the end of March [*The Accountant*, April 1st] and an informal postal poll was taken on members' reactions to the proposals. The annual general meeting will be considering the formal resolution authorizing the Council to present a petition to the Privy Council seeking a supplemental Charter.

Accounts of the Institute

The accounts show a surplus of £35,801 for the year 1970, but as is explained in the memorandum sent to members with documents for the annual general meeting it is prudent now for the Institute to consider its financial position for 1972, and proposals are being put to members for consideration at the annual general meeting for subscriptions to be increased from January 1st, 1972.

Tax Reform on Dividends

by Dr HENRY HOLT, A.T.I.I.

The Government proposes sweeping changes in the taxation of dividends to remove discrimination against distributed profits. A similar move was made in 1958 when the two-tier rate of profits tax was replaced by the single rate of 10 per cent.

WHILST the 30 per cent profits tax charge and the present withholding tax at standard rate are penalizing the payment of dividends, there is no reason to go to the other extreme and to provide legislation which would reduce the company's tax bill substantially on all distributed profits, at the expense of companies which retain the greater part of their profits.

The aim of the proposed two-rate system is that the combined tax rate of the company and of the shareholder should be at the same amount as the tax rate on undistributed profits, ignoring the shareholder's additional tax in excess of the basic rate. The imputation system, the second alternative, has a similar effect.

This result was achieved in 1958 by the introduction of the single profits tax rate. Apparently that system was not too successful. It is a sound economic proposition that companies should be encouraged to retain profits, and the tax on undistributed profits should be lower than the combined tax of the company and the shareholder on dividends. A middle course in 1958 would have been the better solution then and will be the better solution now.

It is therefore proposed 'that the present system be retained, but that the withholding tax be reduced to one-half of the basic rate'.

Effect on shareholders

There would be no need to increase corporation tax from 40 to 50 per cent, which would be a very heavy burden for all companies which require funds for business expansion or survival and can least afford to pay more tax. If the reduction of the withholding tax cannot be absorbed, any increase in corporation tax should be very small.

Shareholders would have little ground for complaint as the incidence of 'double taxation' would be greatly mitigated. Dividends would remain as franked income if received by companies, and be subject to such additional tax only in the hands of individuals as other investment income will be suffering in excess of the basic rate. Any repayment claim would be restricted to one-half of the basic rate.

This would be disadvantageous for small investors, but it seems doubtful whether stocks and shares are the best kind of investment for people with such small incomes that they habitually make repayment claims on dividends. Whilst charities and other tax-exempt funds are, of course, worthy of support, it is a moot point whether they should benefit at the taxpayer's expense to such an extent as to stand in the way of an otherwise desirable reform.

Although there is a tendency on the Continent to regard the British system as the best, the Government may nevertheless wish to introduce either the two-rate system, at present applied in Western Germany, or the imputation system, used in France, in order to harmonize UK taxation with the European community.

It is submitted that it would be far better to relate the relief for dividends back to the period for which they have been paid than to accept the Government proposal and to give relief against the corporation tax period in which they are paid.

The difficulties which the Government envisages are more hypothetical than real. The 18-months' time limit for relating back dividends for shortfall purposes has worked satisfactorily. If desired, the time limit could be extended to two years.

It is difficult to understand the Government's concern about any delay in finally determining the corporation tax liability. Corporation tax would be payable at 50 per cent when due and relief would be given by repayment when the dividend had been paid.

Double taxation relief claims can be submitted up to six years, and loss and group relief claims up to two years, after the end of the accounting period, but it has never been suggested that this created any difficulty. In any case, companies would be anxious to pay the dividend before the corporation tax became due, as they would have to pay at the full rate until they could claim relief after payment of the dividends.

There is no need for complicated legislation; the shortfall rules can easily be applied. It is also undesirable that tax regulations should ignore commercial factors, producing bad side-effects.

One such effect would be the delay in obtaining tax relief which would affect adversely the cash flow of companies, and especially of group companies, which under the new proposals would no longer be allowed to pay dividends without deduction of tax. The following example will illustrate the point:

A company pays a dividend for the year ended June 30th, 1975, at any time between July 1st, 1975 and June 30th, 1976. Corporation tax on the 1975 accounts would be due on January 1st, 1977, but the relief for the dividend will not be given until January 1st, 1978.

If the dividend was paid on December 31st, 1976, relief would not be given until January 1st, 1979, a delay of two years. If the dividends were related back, the adjustment could be made in the payment due the next day.

Another disadvantage is that relief would be given on factors unconnected with the proper period. As the company's income will vary in size and composition – franked and foreign – the relief will be either too great or too little.

These problems would not arise if the dividends were not separated from the profits out of which they had been paid.

If for exceptional reasons the tax profits of the proper period were not sufficient, relief could still be given – under suitable safeguards – against the preceding accounting period and any remaining excess could be carried forward.

The imputation system

The imputation system is similar in form, but not in substance, to the present.

Tax is charged at 50 per cent on all profits, whether distributed or not, dividends paid out of net corporation tax profits being grossed up. The notional tax deducted is to be accounted for to the Revenue but can be set against the corporation tax liability, with the proviso that the corporation tax must not be reduced to less than 20 per cent. Dividends are treated as taxed income of the shareholders to the same extent as under the two-rate system.

The effective rate on distributed profits is 28·6 per cent, which is also the rate for the two-rate system. Provision is also made, as under the two-rate system, for excess distributions.

Whilst the Government proposals mean a welcome reduction of tax on dividends, the tax rate on undistributed profits would be increased from 40 to 50 per cent. It is submitted that a middle course, as suggested at the beginning of the article, would economically be more beneficial.

Investment in Property Bonds

by OUR INSURANCE CORRESPONDENT

Whilst existing insurance company legislation enables the Department of Trade and Industry to examine the solvency of bond companies, it does not automatically provide investors with the additional safeguards which they have become accustomed to expect in advertised savings media. The Department has now set up a committee of inquiry to investigate the whole range of equity and property linked life assurance contracts. One of the aims of the committee is to examine the adequacy of the protection provided for investors by the existing Acts which were not specifically drawn up to cater for property bond investment.

DURING the past few years, a good deal of heat has been generated by property bonds, whose managers may, in some cases, have promoted them rather too forcefully. The press commentators and others have been concerned about the management of some funds. Basically, where one has no doubts about the management company, investment through property bonds should be considered as just another medium of saving for the small and not-so-small investor.

The first unit trust was launched in 1931, and now there are about 250 such trusts. The idea of unit trusts has become particularly popular because it allows investors to have a wide spread of investment in equities. On the property front, property bonds should be even more important. After all, while individual investors can invest comparatively small amounts in stocks and shares of their choice, they are not in a position to buy property for investment. Nevertheless, property is something which most people would like to own. It is widely looked upon as the first and most obvious protection against inflation.

Basically, a property bond fund is similar to a unit trust with life assurance, apart from the fact that the investments are in property rather than in equities.

An obvious choice

There are a number of good investment reasons for buying an interest in property. In the first place, property values as a whole are relatively immune to rapid price fluctuation. It has been shown over the past that

property provides sound, reliable growth in times of economic stability. Generally, property values rise to reflect increasing prosperity in the economy as a whole.

There is also a good hedge against inflation. Rental income tends to rise in inflationary times, and property values are closely tied to this income. There is further protection for the investor in rental income, in the case of commercial properties in particular, in that rents are charges on company earnings. Thus, they are not solely dependent on profitability. Finally, good-class property is always in demand.

These are some of the reasons in favour of investment in property, and there is no doubt that the property bond offers the easiest method of such investment for the small investor who wants to have a fairly wide spread of investment.

In theory, a property bond should be an ideal medium for a small investor. In practice, however, there are certain drawbacks which will be encountered. As with unit trusts, it is not so much the mechanics behind the contracts which matter as the underlying investments.

Launching the fund

So far, very few property bond funds have really got into their stride. There are two main methods by which a property bond fund starts, although neither of these should be looked upon as being ideal.

In the first place, a fund may be started, without any property, with the aim of purchasing property as soon as sufficient funds have been accumulated. There are two chief drawbacks to this course. In the first place, those who subscribe their money have only a relatively vague idea of the types of property in which it will be invested. They start off, simply trusting in the managers. This is very different from the position when a unit trust is launched. Then it is customary to say that the initial investments will be made from a list of specified securities.

The second drawback to a fund starting without any property is that it is likely to be anxious to acquire property at a reasonably early date, so that it has something to show for its efforts. Clearly, in this case, it will not be possible to buy a large first-class property, simply because sufficient funds will not be available. As a result, it is quite likely that investors will not obtain the best value for their money.

One way round that particular difficulty is for the fund to have made available to it at the outset a reasonable lump sum. Not long ago, when one fund was formed, so as to provide reasonable flexibility for investment in property of the right kind until the fund should grow to a substantial size, the managers made available up to £1 million for investment in property.

In many cases, property bond funds are being formed not only by managers who have concentrated on unit trusts in the past, but also by insurance companies. In some cases, the property bond fund is started off with property from the life fund of the insurance company. It is said in favour of this that the property bond holders are saved the acquisition costs of property. Whilst this is true, they may find the property bond fund has a certain amount of property of which the life fund was only too pleased to dispose. This is an easy way out for the investment managers of the life fund, if they should so wish.

This practice also appears unfair on the with-profit policy-holders of the office. Admittedly they are likely to share in the long run in the profits arising from the property bond operation. But, if the life fund disposes of property to the property bond fund (unless it would have been sold in any case), the life fund will be faced with acquisition costs when the money from the property bond fund is invested somewhere else.

Linked assurance

In the same way that plenty of life assurance schemes have been linked to unit trusts, so a variety of life assurance schemes are being planned for linking to property bond funds.

For instance, there is a variety of endowment policies linked to a property bond fund. Dependent on age at entry, a varying proportion of each premium is used to credit units. Gradually, front-end loading appears to be diminishing. Instead, therefore, of the first few premiums not being invested (they are absorbed by expenses and life assurance cover), it is becoming the practice for these expenses to be spread over a longer period. In some cases, for instance, the normal level of investment in the units is not reached until the third year.

Generally, in the event of death occurring during the term of an endowment contract, the bid value of all the units credited to date will be paid, plus a cash sum equal to the remaining premiums which would have been paid until maturity of the policy. In some cases, a double cover option is given, so as to provide twice the cash sum plus the bid value of the units credited.

In general, as in unit-linked life assurance, there are not many schemes where there is a guaranteed value at maturity which is well in excess of the total of premiums payable during the term of the policy.

In the case of a policy taken out for more than ten years, the statutory relief of income tax is allowed in respect of the premiums. The practical effect of this, with income tax at 38·75 per cent, is to provide a discount of 15·5 per cent off the cost. As with unit-linked life assurance, this is usually in excess of the various deductions. Thus, in effect, investment is being made in property at a discount.

Single payment bonds

Single payments are particularly popular with property bonds. In one case, a guarantee is given that, when a single payment has been made, this will be at least doubled after 20 years. In fact, this is a modest estimate,

and the managers do not anticipate having to make any payments from their own funds under this guarantee. In many cases, an income facility is provided when a single payment has been made. Bondholders can choose to take a half-yearly payment, without incurring any income tax liability. There are a variety of levels of income which can be chosen – such as 4 per cent, 6 per cent or 8 per cent per annum net.

Generally, when a single payment is made, life assurance cover is provided. The effect of this is that, in the event of death, a payment will be made which is the greater of either the bid value of the units credited or the guaranteed life cover. Generally, the relationship which the life cover bears to the single payment made depends on age at the time of the payment, and the highest life cover is given for the younger age groups.

Whilst endowment or whole life contracts (whether on a single premium or level premium basis) are generally the most popular form of contracts with property bonds, other contracts either have been introduced, or are being evolved.

There is scope for annuities to be linked to a property bond fund. Such annuities may be immediate, deferred, or special deferred annuities for those who are ineligible for an occupational pension scheme.

Apart from the charges incorporated in a life assurance policy, certain charges are made in respect of the property fund, as in the case of a unit trust. These vary between different managers but a fairly usual initial charge is 5 per cent, which is included in the offer price of the units. Also, there will be an annual charge based on the value of the fund. This may be in the region of $\frac{3}{8}$ per cent, but in some cases may be more than this.

It should be made clear that, generally, the cost of management, valuation and other expenses of the fund, including those of buying and selling properties, are borne by the fund and not by the managers.

The attitude so far as capital gains tax is concerned varies among the different managers. In some cases, the principle is much the same as with a unit-linked life assurance policy, with a deduction being made in respect of the contingent liability to capital gains tax when the value of the units is paid out. In other cases, the prices of the units are net of capital gains tax, with a sum being put aside each year to meet the capital gains tax liability. In fact, this sum may very well be invested in the fund, and the rental income from it will benefit all bondholders.

Investment policy

As mentioned earlier, perhaps one of the most important points about any fund is its investment policy. There is much to be said for the fund which buys first-class properties as a long-term investment, investing in known and proved areas and the primary positions within them. In the long run, probably this is what most people are looking for from a property investment.

Full details of properties should be given to bondholders and prospective bondholders.

The attitude of managers towards liquidity is important. A property cannot be sold instantly merely by making a telephone call. Nevertheless, bondholders will expect to be able to withdraw cash on demand. In practice, most managers are retaining the right to withhold payment for six months or so in extreme conditions.

In view of the adverse comment which has been made in some quarters, many funds are maintaining a reasonable liquidity ratio. Nevertheless, as has been seen with building societies, to a great extent the question of withdrawal is a matter of confidence. If there should be a run of withdrawals, for any reason, it is unlikely that fresh funds would be coming in. There is, therefore, much to be said in favour of the funds which have stand-by credit facilities in force, so as to overcome liquidity problems.

Perhaps one of the most difficult practical problems is in connection with the valuation of property bond funds. In the case of a unit trust, the majority of the underlying securities will have a quoted price, made in a market. That is the price used for valuing the units. With property, however, a valuation has to be made, and clearly that can be no more than an indication. It is important, therefore, that full details of current valuations should be given, together with explanations as to how they have been made. In some cases, valuations are being made annually, with mathematical adjustments being made more frequently.

It has been appreciated that truly professional and independent valuers should be appointed for this work. Nevertheless, it could be helpful all round if consistent methods of valuation could be employed within individual funds, and as between different funds.

Conflicting interests

In the past, some of the management companies have had close connections with property. In view of this, when a property bond fund is started, it must be made clear to all concerned that there can be no conflicts of interest. For instance, there must be no question of management companies and associates dealing in properties purchased by the fund.

All in all, given safeguards, property bonds have much to offer small investors who want a stake in commercial and industrial property, with first-class management. Nevertheless, it must be made clear to them that this should be looked upon as a long-term investment. Whereas, in difficult times the investment is likely to be more stable than equities, there is no means of telling which is likely to perform better in the long-term. In fact, probably it is best to think of property bonds as forming no more than a part of an individual's investment portfolio. It can be looked upon as supplementary to investment in equities and fixed-interest securities.

LETTER FROM AMERICA

Less Off the Cuff

From Our New York Correspondent

THIS has been a bad season for America's never-never land. Although the recession is now becoming a thing of the past, consumer confidence is still shaken and consumer credit is still being used more sparingly than in the lush late sixties. A recent issue of First National City Bank's *Consumer Views* urges readers to make a regular review of their 'personal net worth' – not forgetting to deduct amounts due on car loans, charge accounts and hire-purchase debts. As a further sign of the times, it suggests that from 5 to 10 per cent of take-home pay should be saved; and that, if so much saving comes hard, 'smart commuters' should ride their bicycles to the station rather than drive a car.

Controlling credit

At the same time, givers of credit are faced by a circle of regulations that has been gradually closing in around them. In Britain, as reported in these columns on March 25th this year, the Crowther Committee concluded that the present chaos of restrictions should be simplified and, where possible, abolished. In America, public and politician alike are springing to the defence of the purchaser by proposing all kinds of new controls.

It is now nearly two years (*The Accountant*, August 16th, 1969) since the US Consumer Credit Protection Act came into force. The Act aimed at bringing a greater measure of truth in lending, in particular for those of modest means whose borrowings usually go no further than the amounts of credit that can be raised at a grocery or electric appliance store.

Salesmen feared that the new requirements, including the conversion of all interest charges to an annual equivalent rate, would enrich accountants and lawyers rather than protect the unsuspecting poor. In fact, salesmen seem to have adapted without too much difficulty to the new rules and have been relieved to find that, this year, the spotlight has swung on to the activities of the credit agencies.

After many ominous rumblings and intense lobbying efforts in Washington, critics of these agencies succeeded in pushing the Fair Credit Reporting Act through Congress. They have now had two months during which to assess its effectiveness. First impressions are that the Act will indeed curb some of the hidden powers of the agencies, which are reputedly possessed of such an evil eye that they can cause professional insurance cover to be withheld or an accountancy assignment to be lost, as well as less damaging effects such as the refusal of a credit card.

The main provision of the new Act is that the party influenced by the credit report – whether employer, insurer or salesman – can be required to give the name of the agency providing the unfavourable report. This deprives agencies of the secrecy that formerly invited irresponsible reporting, and imposes on them the obligation to show the report to an aggrieved party. This provides a new opportunity for the correction of false information. Even if the information is true but damaging (a default or a bankruptcy, for instance), it must henceforth be deleted from the record after periods ranging from seven to 14 years. The result will be reports that are more accurate; but, at the same time, less informative and harder to obtain.

Stiffer restrictions have also been imposed on issuers of credit cards. To prevent their being 'borrowed' at the expense of the intended holder, they may no longer be posted out indiscriminately by petrol companies, travel agents and others with access to the credit ratings of the recipients. Issuers of cards are responding to this change in established practice by writing to existing holders and urging them to keep using their card so that another one can legally be issued when the time comes for renewal.

Questionable methods

The trend toward more and more regulation of credit transactions is deplored by the accountancy profession and by business in general. Yet a recent meeting of the American Management Association was left in no doubt that many of those who buy their necessaries off the cuff need all the protection that they can get. The urban riots that broke out three years ago usually had as their main targets (apart from the local wine merchant) any stores that sold high-price articles on long-term credit. In addition to complaints of shoddy merchandise and failures to live up to guarantees, 'the third poison', according to a speech given at the AMA meeting by a representative of the Federal Trade Commission – whose duties include the regulation of retail trade – has been abuses in collection practices.

The AMA speaker enumerated several irritants that have helped to set underprivileged people against retailers and the business world as a whole. It seems that retailers have been in the habit of sending out misleading demand notices (in at least one case, dressed up to look like an official inquiry from the government). Then they have made full use of their power to garnish – that is, to have employers collect debt payments out of the wages of those delinquents who are employed. They have brought suits in cities too far away for the debtor to defend himself, or with inadequate notice to appear. And they have used fraudulent process or enforcement methods.

As a result of these abuses, all those concerned with the management of receivables have been asked to review the methods of debt collection that have been used. Many of these methods, the FTC speaker concluded, 'cross the line of wisdom, and frequently even legality'. This is yet another area in which credit terms and enforcement procedures are to be more closely policed.

New Outlook on Internal Audit

III – Putting Internal Audit into Practice as an Aid to Management

by ANTHONY WHITTAKER, M.A., F.C.I.S.

INTERNAL auditing is not a job that means much to the great British public, or to many other publics; and I find in talking to professional people, still more in interviewing candidates for employment, that it means far too little even to qualified accountants, many of whom should at least have come across internal audit units in the companies they visited as statutory auditors. In this situation it is fashionable to talk of images and to enlist the aid of a public relations man. Indeed, as internal auditors, we have a lot to learn about publicity, but I think there is much more to the difficulty than this; the problem is a real one.

Emotionally, however, my attitude is quite different. I find it extraordinarily difficult to believe that anyone needs convincing that mine is one of the most fascinating and desirable jobs that business has to offer, with scope for brains, moral courage and original thought; giving every kind of opportunity for learning new techniques, for travel, for meeting people; promotion for anyone foolish enough to want to leave internal audit; and the lasting satisfaction of contributing something over and above the work of the day to the organization that one works for.

The contradiction is apparent enough. I am sure that to many people the impression that some internal auditors give is one of a lot of earnest but rather dull, if not dim, chaps doing a rather dull job. Adding up things, putting ticks on papers; counting extremely petty cash; scrutinizing expense claims; eager to brighten up our gloomy and overcast days by finding a fraud, an embezzlement or at least a breach of regulations. . . .

Let us admit ruefully that it may be so, and that some internal auditors qualify all too clearly for the description of 'an accountant who can't get a decent job'! There are many kinds of internal audit department; our units are not established by law, but are simply what our organizations say they shall be, and no-one can say – though some of us try – that ours and ours alone is the only genuine brand.

Terms of reference

I should, however, like to consider some of the things one bears in mind in running or setting up the kind of internal audit that commends itself to me and to many of my colleagues. Most of these colleagues, like me, tend to be connected with commercial enterprises rather than the several other fields of internal audit; if from time to time I assume this background, I hope my remarks will be translated readily enough for the other fields. The principles, I am sure, are applicable to all.

Terms of reference are an obvious starting place. Under this blanket heading I want to put everything such as policy statements, aims and objectives, audit manuals and the like. There are many names, and for the present purpose a broad approach will suffice. What is important if we are really going to 'put internal audit into practice as an aid to management' is to get into our heads and to reduce to writing a good general idea of what we intend to do, and how we shall do it.

We can be sure, I think, that we are going to 'review and report upon the system of internal controls'. This internal auditors' cliché tells us everything and nothing. So much depends on the structure and operations of the company that it is only after studying them that we can form a useful view about the type of internal audit unit that would serve them best. Annoyingly in a new or developing unit there may be insufficient information to establish terms of reference and yet it may be necessary to derive authority from terms of reference in order to obtain the information. Similarly, one may need staff to obtain information, but the type of staff one will need later can be very much dependent on the information that is obtained.

If this seems an unfruitful approach, we might turn to consider our object of being an 'aid to management'. Whatever our organization is or does, we shall not aid management if they don't listen to us. I take it for granted that we are aiming at top management as well as the lower levels; we must then be able to get a hearing at the top, in commercial terms, at main board level. This is a key point, and as a generalization we can state that terms of reference should always be specific about it.

This level of reporting not merely gives us the authority that we need if we are to speak confidently to all managements but it helps a great deal in giving us independence. Again, I take the necessity for independence for granted; we cannot review and report impartially, as we must, if we are members of some other department, no matter how worthy.

Incidentally, this is the real case against being responsible to the chief accountant or his equivalent. Chief accountants are invariably the best of men, and their equivalents are always very fine equivalents; but if you report to the chief accountant you will be limited to aiding him, rather than the management in general.

Then again, I think we can state dogmatically that terms of reference, no matter how general, should free the internal audit department of line responsibility. Internal auditors as well as managements need a firm reminder on occasion that internal auditors are not line managers, firemen, O. & M. experts, consultants or anything other than reviewers of and reporters on systems of control.

Two other obvious but very important items should be written into any department's constitution. Information must never be denied to internal audit – it occasionally is, often in the disguised form of preventing or resisting

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visits to a location; and no-one ought to be able to prevent an internal auditor reporting to whom he thinks fit.

To sum up, with all the dangers of going on record, ('O that mine enemy would write a book!') it must pay us to decide what our particular internal audit unit is going to do, and to put this into documentary form. The content may be very varied, but the reporting level, the independence of the unit, the exclusion from line authority, the right to information and the right to report to the appropriate person on any subject can hardly be omitted.

Planning

Having established the terms of reference, we turn to the consideration of the work to be done. The order that I am adopting, it should be noted, is not chronological; generally one takes the various points that I am discussing several at a time – they all interact and they cannot be taken in isolation. However, let us turn to planning, where we strike further difficulties at once.

It is to be hoped that we know what type of organization we are in, whether international company, merchant bank or local authority. Whatever it is, certain things about the system of controls will follow. We know that internal auditors are going to review and report on the system of controls. Quite possibly the internal audit unit has covered much of the ground before. You might take it, therefore, that planning is a simple matter of, say, listing the jobs to be done, deciding on the type and number of staff required for each one, the time to be taken, the equipment required, adding in, say, a bit of network analysis as a touch of sophistication, and shaking up the mixture. It is not quite so easy.

The main difficulty, apart from the regrettable tendency of emergencies to arise at any moment, is that planning in this detail depends very much on the future repeating the past. It is generally less obliging; and in any case I do not believe that internal auditors ought to aim at doing in the future what they did in the past. If a department can carry out the same programme three years running in the same location, and still be producing significant reports, my guesses would be:

(1) No one is paying any attention to internal audit reports; or

(2) Internal audit is so sleepy that it is missing some of the points each time; or

(3) The local management is so busy attending to internal audit reports that it lets in a fresh crop of control faults as it corrects the first ones; or

(4) There is a really clever plot afoot to distract internal audit from something very nasty in the woodshed.

So internal audit should be concerned with new approaches and new projects; they are difficult to plan and particularly to time. It is even more difficult to decide where priorities should be placed. Occasionally events settle the issue, when there is a crisis or control failure of such magnitude that it must receive all one's attention. But apart from this, which no one would want, it is a bold internal auditor who can say for certain whether a short project in a small manufacturing unit or a long survey of financial controls in a large office is going to be the more immediately valuable, still less if the choice is between similar projects. Further, the small project may at any time show the need for a large one; this is one of the fascinations of our work.

Despite the difficulties, planning should be given much attention. It must be flexible, for the reasons I have given. But without planning it is almost impossible later on to measure performance; it is essential as a guide to future staff requirements, and the deployment of the staff that one has; and it keeps one reminded constantly of what one must be doing in practice if hopes are to turn into achievements. As a matter of interest, however, I would guess that very few internal audit units eventually stick close to the details of their longer-term plans. My feeling is that the ones that do are not so much efficient as unresponsive to change.

Planning means people. One says easily 'Internal audit as an aid to management', but internal audit is not something you smooth on to management to give it a radiantly youthful complexion. Nor is management itself, when the last book and the last article on it have been written – I won't say 'read' – anything other than an activity that managers perform. We are, then, looking for people to aid people. I am sure that all the hard thinking and planning will come to nothing unless we have the right people. This is our biggest difficulty.

What sort of people do we need? They have to review and report on the system of internal controls. In a modern unit this means all the controls, not simply those on accounts and finance. No manager will be helped by uninformed comment from someone who has no grasp of the essentials of the operation under review; even in the field of accounting, where most internal auditors start, they cannot take it for granted that a professional qualification is all that is needed to give them this grasp. Consequently a high degree of technical knowledge is needed in a number of fields.

Tact

Technical virtuosity is only the first requirement. In order to review and report, internal auditors must obtain information. This, as I am sure every auditor, external as well as internal, will bear witness, is not simply a matter of walking in upon a manager and demanding it. Friendly relations and a tactful approach always produce information more efficiently than insistence on one's rights. If this has its importance to a statutory auditor it has even more to us. We have not merely to obtain information, but to persuade, not command, managers to accept the recommendation made in our reports. From time to time, in the nature of things, we must also draw attention to matters that a manager does not much want brought to light; sometimes to things that very few people indeed want to be made to notice. So the auditor should be friendly, tactful, objective, trustworthy and firm as well as technically able; in view of these requirements, perhaps he should be modest as well.

There are other points of varying importance. Travel is worth mentioning. Many internal audit jobs, though not all, involve travel, and some involve a large amount. This is not to everyone's taste, particularly if a man has already done a lot of it, perhaps as an external auditor. Again, there can be no disguising that, however absorbing it is, the work is essentially criticism, in the proper sense, of other people's work; the internal auditor is not and cannot be responsible for the actual operations of his company at first hand. This makes internal audit, for many able men, lack anything more than short-term appeal.

So you would guess, correctly, that internal auditors of the right type are difficult to find. Although it is by no means essential for an internal auditor to start as an

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In addition to the distinguished Editorial Board and the contributors the Publishers maintain a permanent staff whose time is wholly devoted to this single work. It is also worth noting that a great deal of research has recently been done on computerised searching and text analysis techniques; the fruits of this research are being passed on to SIMON subscribers.

This is a work with the widest possible appeal. Experts will of course use it as a work of reference and, when obscure points are at issue, will turn to it for an authoritative analysis of current law, complete with supporting statutory and other official material. Others, dealing with day-to-day problems arising in normal practice, will appreciate its straightforward narrative which pre-supposes no great degree of specialist knowledge. Points of doubt and difficulty are brought into the open and discussed in everyday language.

Worked accountancy examples are lavishly provided, elucidating problems in a way which no amount of verbal description could achieve. Most of these accountancy examples are the work of the authors of the text they illustrate and are all fully decimalised.

The arrangement of the work, which is now in nine volumes, is fully described opposite. Briefly, however, Volumes A, B and C deal with administration, procedure and computation so far as they are common to income tax, corporation tax and capital gains tax. Volume D deals with the taxation of companies and Volume E with the taxation of individuals and trusts. Volume F is devoted to double taxation relief. Volumes G and H contain Acts, Statutory Instruments and Extra-statutory concessions. Each of these volumes will have its own individual detailed index while Volume I comprises a comprehensive index to the whole work, together with the usual Tables of Cases and Statutes and a new Table of Statutory Instruments.

SIMON is designed primarily as a reference work, and great care has therefore been taken to ensure that any matter can be traced quickly and easily.
The logical arrangement of material and a consistently practical approach are features of the work. Each volume has its contents epitomised on the spine, and every Volume, Part and Division opens with its own list of contents, quite apart from the volume index and the master index to the whole work. Within the volumes, a simple system of numbered Parts, Divisions and Articles helps cross-referencing.

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Note: This volume is provided with a transparent pocket in the back cover, so that the current Finance Act booklet can be logically accommodated within the same volume as other Finance Acts

I – Tables and Index
Tables of Statutes – Table of Statutory Instruments – Table of Cases – Master Index

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accountant, this is the most common source, so we are operating in a highly competitive market. I have described some of the actual disadvantages; and to return to an earlier theme, many of us do not resemble in the slightest the paragons that we wish to employ. This puts off recruits, who judge the good units by the bad ones, and turn away to more attractive areas.

In turning away they miss a good deal. The interest of the job in a modern unit, with its succession of problems, new techniques to be mastered, changes of scene (and in an international company this means something) is of more appeal to some than to others. But it also provides a remarkable opportunity to get a detailed acquaintance with an organization and to prepare oneself for promotion within it. Promotions are made; in my experience this is *the* cause of loss of staff from internal audit, and it does internal audit and everyone else nothing but good in the long run, little though those of us who have to find replacements like it in the short.

Training

The promotions occur, obviously, because we pick good people and give them valuable experience and training. This is a service that any efficient unit performs for the organization as a whole, but it would be necessary in any case for the unit's own benefit. Without going to great length, I should like to make one or two points: the quality of the aid that one provides to management is greatly affected by the quality of the internal auditor's training.

To get a ready-made auditor who knows all that is required is not a thing one can hope for; indeed it is probably not possible now for one man to acquire all the skills needed. In our organization, for example, there is in existence a list of the desirable skills for our internal auditors; alphabetically set out it occupies 20 pages, and although it begins with accountancy and ends with work study it has run through business graphics, computers, fraud, interviewing, languages, photography and typing on the way – all of them put in not to lengthen the list, but because we need the skills in greater or lesser degree.

We find it hard to train; there is a lot to do, and travelling makes long courses or evening classes very difficult to fit in. This seems to be the experience of many internal auditors; but, with enough effort, progress can be made. Specific education for internal auditors is hard to come by, except within departments. The situation is made worse by the misconception that our needs are the same as those of the statutory auditor, but internal auditors as a body could do much more than they now do.

Organization of work

These details of the setting-up stages of the service have their importance, as do those of the day-to-day organization of the work. These, however, are done ample justice in the textbooks, and I do no more than glance at some points of interest.

On that hardy perennial, the use (or disuse) of formal audit programmes, we are not dogmatic in my unit; where we are well acquainted with an organization, or where one system is the same as another, we see no great harm in a set programme. The danger, of course, is that an auditor will work through a programme and feel that because every space in it bears his initial, he has done a good job. On the whole I prefer check-lists to programmes, and imagination is better than either.

Working papers are as important to us as to external auditors, and perhaps even more difficult to organize, because once the general details of systems and controls have been recorded, it is a matter of seeing that all the supporting evidence, which may be entirely outside finance, is adequately recorded. It is harder to make rules for this than, say, for depreciation schedules.

Time sheets in detail are not important to us as a basis for charges to clients (though the subject of charging for internal audit is one of much interest) but my own habit is to pay a fair amount of attention to time as a means of controlling a department; it at least tells you that work is being done, and at what pace. Assessing the value of the work is an altogether different matter.

Problems and attitudes

The final task that I have set myself is to replace that picture of a worthy but dull chap in the type of job that is damningly described as 'useful' with one more to my liking and truer to the facts as I know them. There are dangers here of over-correction: I have given the reasons why people of high quality are needed to do the work; it would be easy to describe how, in many units known to me, these exceptional beings go off, sometimes in a hurry, to distant places; how on other occasions, even if they do not put on cloak and dagger, they tread delicately and silently through tricky situations. I could whet some appetites by citing many cases of internal auditors who have moved on to higher posts. All of this happens, and it happens quite often.

Nevertheless, this is only the icing on the cake, and obviously the everyday scene is not like this (though in travelling units such as mine there is always somebody coming or going). More fundamental are the attitudes of mind that auditors must cultivate and the normal problems that they will encounter. As before, I am not referring to technical problems. They have their place, but I am sure that generally it is easier to find the answers to the technical difficulties than to the non-technical.

The principal one is probably acceptance. The auditor's function is critical; constructively critical, yes, but he is passing judgements. No experienced auditor ever passes judgement directly on a person if he can pass judgement on a situation instead, but situations involve persons, and some persons very readily assume that judgements are directed against them. Even before this point, sometimes even before the auditor arrives, there is often resistance to be overcome. The causes vary; sometimes a confident management is sceptical of the ability of internal audit (perhaps of anybody at all) to tell them anything, sometimes (rarely) a unit has something to hide; most often, perhaps, internal audit is an unknown quantity, and people simply do not like to feel that these outsiders are going to scrutinize them.

It is as well to recognize the existence of these situations if they occur, and there may be times when frank discussion is the only answer. But the most effective way of securing acceptance is to make sure that the aid to management is real. Even with the right technical background and personal qualities, this means unceasing effort. First of all, one must learn to speak the same language as management; with us this is literally true in some countries, but even a British market director or a transport manager or a head buyer does not speak or think in the accounting language that

comes first with most of us. This is not a defect on their part; whisper it, even internal auditors must adapt to the organization, not the other way round. One must, in fact, even where one is mainly concerned with financial controls, spend a lot of time getting to know these other sides of the business and reaching a sympathetic understanding of the preoccupations of the men who run them.

In carrying out audits, this knowledge of the 'language' is a great help in keeping one focused on the things that matter. I cannot be specific for each and every organization about what does matter in the way of controls; in a commercial organization, however, the accent must surely be on profitability. It follows that a song and dance by an auditor about a weakness or lapse in control that can only have a minor effect on profit shows a wrong attitude of mind. So does a post-mortem with the sole object of blaming somebody for the death; yet very often we find ourselves having to explain to managers that blame for the past is just not part of our thinking.

It is getting things right for the future that counts. Perhaps a note of moral fervour is now beginning to sound; if so, so much the better. The modern internal auditor does look at things this way; he does want to help managements and to act for the good of his organization; he does try to set himself high standards of rectitude, objectiveness and impartiality. Perhaps fairness, which is not quite the same thing as justice, should be added; it is very important in practical as well as ethical terms, for an internal auditor to be recognized as fair.

Reporting is the final test and the stiffest. I will not now add to the many words that have been devoted to the techniques of reporting. But one point cannot be too strongly made. Without departing one whit from our standards of objectivity, we as internal auditors must make our reports sell. It is the prerogative of managements to reject our recommendations if they wish. The fact remains that if they do this very frequently we are not performing our service efficiently.

Obviously this imposes further strains; even to state the relevant facts lucidly and concisely is not a very common ability, and the additional effort of tailoring each report to its particular occasion and audience is considerable. If the attitude is correct, however, one is half-way to success, and the attitude should stem directly from the internal auditor's genuine wish to provide the aid to management that is my theme. Thus inspired, we can at least aim to produce reports that have something to say, and say it shortly, clearly, and convincingly.

Taxation Cases

British Petroleum Co Ltd v. Cropper

In the House of Lords – May 5th, 1971

(Before Lord HODSON, Lord DILHORNE, Lord WILBERFORCE, Lord PEARSON and Lord DIPLOCK)

Income tax – Investment company – Management expenses – Dividends from foreign-taxed companies – And companies entitled to double taxation relief – Company also entitled to such relief – Whether repayment to be at standard rate or a proportion of tax actually paid – Finance Act 1915, section 14 – Income Tax Act 1952, section 425.

During 1958–59 the company received dividends from foreign companies, which were subject to foreign tax. It also received dividends from United Kingdom companies, which themselves were entitled to double taxation relief. The company was entitled to double taxation relief in respect of both categories of dividend.

It was contended for the company that it was entitled to repayment of tax, in respect of management expenses, at the standard rate. It was contended for the Revenue that the company's entitlement was to recover a proportion of the tax actually deducted against it. The company also contended that section 350 of the Income Tax Act 1952 did not bar repayment at the standard rate, as the section limited the repayment by reference to the tax borne by the dividend-paying company. The Revenue view was that the relief was limited to the rate of United Kingdom tax on the dividend-paying company. The Special Commissioners decided in favour of the Revenue.

Held (affirming the judgment of the Court of Appeal): the Special Commissioners' decision was correct.

Shell Petroleum Co Ltd v. Jones

In the House of Lords – May 5th, 1971

(Before Lord HODSON, Lord DILHORNE, Lord WILBERFORCE, Lord PEARSON and Lord DIPLOCK)

Income tax – Investment company – Management expenses – Dividends from foreign-taxed companies – And companies entitled to double taxation relief – Company also entitled to such relief – Whether repayment to be at standard rate or a proportion of tax actually paid – Finance Act 1915, section 14 – Income Tax Act 1952, section 425.

During 1960–61 the company received dividends from foreign companies, which were subject to foreign tax. It also received dividends from United Kingdom companies, which themselves were entitled to double taxation relief. The company was entitled to double taxation relief in respect of both categories of dividend.

It was contended for the company that it was entitled to repayment of tax in respect of management expenses at the standard rate. It was contended for the Revenue that the company's entitlement was to recover a proportion of the tax actually deducted against it. The special Commissioners decided in favour of the Revenue.

Held (affirming the judgment of the Court of Appeal): the Special Commissioners' decision was correct.

FINANCE AND COMMERCE

Robert Hudson – Results in Reverse

TO say the least, the layout of the accounts of Robert Hudson is different. Being used to figures to the right of the narrative, except in those involved balance sheet presentations that contrive to provide group and parent figures plus comparatives to one central narrative, this column's eye was not prepared to begin reading the profit and loss account and be confronted with the startling information that even 1969 apparently needed a reference to note 1. That the first figure was the comparative figure for group sales was not exactly mind-grabbing, either.

More seriously, though, it is extremely difficult to grasp why those responsible for the layout of the accounts should consider the order of 'comparative figure, latest figure, narrative' preferable to 'narrative, latest figure, comparative' when that is the normal method of reading – from left to right and with a description or identification of the figure before the statement of the figure itself.

What is awkward on the profit and loss account becomes difficult in the balance sheet which, reading normally from left to right, provides the 1969 parent and group figures followed by the 1970 parent and group figures and, lastly, the narrative. And the continual right to left 'double take' breaks up the reading flow.

In Africa

To make matters more awkward, both the profit and loss account and the balance sheet are virtually surrounded by the notes which, as our reprint shows, are also presented back to front and in identical type to the main accounts. The notes admittedly are keyed into the accounts, but the placing of the number of the note in the middle of the page makes tracing of the note, let alone the reading of it, a bit of a problem.

While on the subject of annoyance to the reader, it may be stated that the end of the chairman's statement on page 8 of the report and the beginning of the accounts on what would normally be the opposite page – number 9 – is separated by twelve pages of illustration and text in magazine style presenting Robert Hudson in Africa.

It is readily agreed that Robert Hudson is in Africa and that what Robert Hudson does there is vital to the group and to its shareholders; but twelve pages of black and brown 'colour' supplement stapled in between the directors' report and the accounts are there out of place.

When the financial press met Robert Hudson directors at a luncheon conference, the majority of those present tore 'Robert Hudson in Africa' out of the report so that they could more readily get at the essential contents. 'Robert Hudson in Africa' could well have been slipped into the report as a separate supplement.

Impression

A point to recognize is that Robert Hudson as a company needs to make an impression, since it was the subject of an asset situation take-over bid by Jessel Securities last year. Jessel Securities, through subsidiary and associated companies, is stated in the Hudson directors' report to be 'interested in 715,280 ordinary shares'.

The ordinary shares have normal voting rights but the 'A' only carry voting rights on resolutions to wind up, on a reduction of capital or on questions affecting their rights. The directors and family trusts control some 26 per cent of the voting equity.

Results shown in the accounts meet the forecasts made when the Jessel bid was defeated, and in the past two or three years in particular there has been considerable reshaping and sharpening of the group under the managing director Mr John Bingham – whose original contact with the company was as a member of a business consultancy team called in to advise on group restructuring.

In the UK, Robert Hudson itself is a holding company with one main operating subsidiary, Robert Hudson (Raletrux), which has a rolling stock division manufacturing mine transportation equipment and a Hudson of Leeds division supplying earth-moving and agricultural machinery. There is another UK subsidiary, 80 per cent owned, called Robert Hudson Processes & Equipment which offers technical sales and service to industry but the sale of the business was being negotiated at the time of the issue of the report.

All other Robert Hudson operations are abroad, particularly in Angola, South Africa and Zambia where 100 per cent owned subsidiaries supply mining, transportation equipment, agricultural and construction machinery and equipment and operate as automobile engineers and general merchants.

Weak point

In Angola the company 'continues to concentrate upon activities essential to the development of the country' and much of the success achieved 'depends upon the automotive trade'. In Zambia the bulk of the business done is with the copper mines and the board is 'giving considerable attention to the question of increasing Zambianization of the company in order to accommodate local government policy'. In South Africa, operations are also largely concerned with the mining industry, but also with construction.

The group is now becoming established in Australia through an associated company and also operates in India. The weak point is Hudson of Leeds' construction equipment division which, as shown in the extract from the chairman's statement included in the reprint, lost nearly

£36,000 last year against £16,239 the previous year. Shareholders are told that the directors do not anticipate a rapid turn-round but that 'the division will not be permitted to operate at a loss for an indefinite period'.

Much management reorganization has taken place in the group as a whole, with only 21 senior executives and managers in the same jobs now as they were in January 1969. Attention is 'presently being given to concentration upon a clearly defined and understood philosophy throughout the group', and the broadening of sources of profit and the disposal of properties (shown in the accounts) are continuing.

Robert Hudson is going the right way about protecting itself from a further take-over bid. Success might be celebrated next year by printing the accounts the right way round.

Duport

CHANGES in accounting dates at the Duport domestic products-to-foundries group were made for reasons of 'administrative convenience'. In retrospect, it might appear that the reasoning was right though the timing was a little out.

The date for ending the company's financial year was changed from July 31st to January 31st and this, of course, meant that the accounting period beginning August 1st, 1969, has covered 18 months to January 31st, 1971.

Chairman Mr William Barrows fully admits that the change in accounting dates 'may give rise to some difficulty when comparing the results'. Moreover, early last year Duport acquired the Slumberland concern and this, admits Mr Barrows, makes comparison 'further complicated'.

Interpretation is aided through three sets of results covering 12 months to July 31st, 1970, six months to January 31st, 1971, and the 18-month period to July 31st, 1971. And the 'some difficulty' involved in making comparisons stems from inclusion of results from Slumberland for different time spans – seven months, six months and 13 months, respectively.

Ruthless action

USE of the term 'rationalization' to mean closures and cut-backs is now so prevalent that Mr Murray Gordon, chairman of the Combined English Stores concern, could claim to be speaking plainly when he frankly describes the group's progress last year.

Nearing completion is the group's policies of re-allocating resources. This is being achieved by the closure of loss-making department stores and by the 'ruthless elimination' of units failing to make adequate profits in relation to the assets employed.

There is, possibly, a dividing line between 'rationalization' and 'ruthless elimination'. In Mr Gordon's phrase-book, the latter means the closure of 30 unsatisfactory units though the ruthlessness does not stop there.

Each unit in the remaining general stores group numbering 22 out of the group's 243 total stores has been given until the end of the current year to prove itself. Each unit is subject to constant scrutiny and, says Mr Gordon, 'should one fail to achieve the standards required, then it will be subject to the now familiar ruthless action'.

ROBERT HUDSON LIMITED AND SUBSIDIARIES

Extracts from chairman's statement

Group profit. Group pretax trading profit for the year ended 31st December 1970 was £588,988 compared with £423,936 for the truncated period to 31st December 1969, and with the forecast of profit in excess of £500,000 made at the time of the unsuccessful bids by Leeds Assets in September 1970.

After providing tax on the profit of the year, and after dealing with exceptional items of £21,918 referred to in the notes on the consolidated profit and loss account there remained £283,502 compared with £176,196 for the previous period.

The comparative figures are:

	Year to 31.12.70 £		Period to 31.12.69 £	
Robert Hudson & Sons (Pty) Ltd.				
South Africa	133,208		101,856	
Angola	434,580	567,788	396,588	498,444
Robert Hudson (Raletrux) Ltd.				
Rolling Stock Division	18,816		(49,184)	
Hudson of Leeds Division	(35,916)		(16,239)	
	Loss	(17,100)	Loss	(65,423)
Robert Hudson (Zambia) Ltd.	165,388		72,400	
Robert Hudson Processes & Equipment Ltd.	Loss	(3,032)	Loss	(6,910)
		713,044		498,511
Less Group Expenses		130,559		74,575
		582,485		423,936
Share of profits of Associated Companies		6,503		—
Group Profit before Taxation		588,988		423,936
Less taxation		283,568		207,740
Group Profit after Taxation		305,420		216,196
Less exceptional items		21,918		40,000
Net Profit available to Shareholders		£283,502		£176,196

Your attention is drawn to the reference to 'period to 31st Dec. 1969' in the above table. This refers to the truncated accounting period arising from the synchronisation of the accounting years throughout the Group from the 1st January 1970.

Consolidated profit and loss account for the year ended 31 December, 1970

Notes	1969 £		1970 £	
1				**Group sales**
2	9,209,000		12,363,000	
3	423,936		582,485	**Group trading profit**
4	—		6,503	**Share of profits of Associated Companies**
	423,936		588,988	**Group profit before taxation**
5	207,740		283,568	**Taxation**
	216,196		305,420	**Group profit after taxation**
6	40,000		21,918	**Exceptional items**
	£176,196		£283,502	**Net profit available to shareholders**
7	94,765		221,525	Dealt with as follows **Dividends**
8	81,431		61,977	**Profits retained in the business**
	£176,196		£283,502	

The notes on pages [814 to 815] form part of these accounts

Notes on the consolidated profit and loss account

1. Accounting date The 1970 profit and loss account includes results of all Group Companies for the year ended 31st December 1970. The comparative figures for 1969 include results for Robert Hudson & Sons (Pty) Limited for the year ended 31st December 1969 and those of the other Group Companies for the six months to that date.

ROBERT HUDSON LIMITED AND SUBSIDIARIES

Notes on the consolidated profit and loss account continued

1969 £	1970 £	
		2 Group sales (comprised of sales to third parties)
480,000	1,225,000	Home sales by Group Companies in the United Kingdom
228,000	742,000	Export sales by Group Companies in the United Kingdom
708,000	1,967,000	
8,501,000	10,396,000	Sales by Group Companies in Africa
£9,209,000	£12,363,000	
		comprising
1,636,000	2,491,000	Manufacturing
7,573,000	9,872,000	Merchanting
£9,209,000	£12,363,000	
		The total Group Exports of United Kingdom goods were as follows:
228,000	742,000	Direct third party exports as above
773,000	2,330,000	Sales of goods at cost price to overseas Subsidiaries for re-sale (1969—six months)
£1,001,000	£3,072,000	
		3 Group trading profit
		Contribution to Group trading profit of the above activities:
15,700	77,079	Manufacturing
482,836	635,965	Merchanting
498,536	713,044	
74,600	130,559	Net Group expenses
£423,936	£582,485	
		Group trading profit shown is after deducting the following items:
106,499	184,913	Interest payable on bank advances
72,014	140,535	Less: interest receivable
34,485	44,378	
91,178	120,580	Depreciation
27,412	54,993	Remuneration of directors of Robert Hudson Limited (see below)
12,563	16,510	Remuneration of auditors
£165,638	£236,461	
		Depreciation has been calculated using the reducing balance method, as in previous years, on book values at rates appropriate to the assets concerned.
		Remuneration of the directors of Robert Hudson Ltd.
		From the Parent Company:
350	700	Fees
21,401	50,719	Management remuneration
223	—	Pension to retired executive director
21,974	51,419	
		From Subsidiary Companies:
600	996	Fees
4,838	2,578	Management remuneration
£27,412	£54,993	
£7,468	£8,574	Contributions paid to pension funds on behalf of directors
		Notes: The above remuneration includes:
£6,021	£11,399	Chairman
£6,699	£11,614	The highest paid director
Number	Number	All directors
1	–	£1 to £2,500 per annum
1	1	£2,501 to £5,000 per annum
2	3	£5,001 to £7,500 per annum
1	–	£7,501 to £10,000 per annum
2	3	£10,001 to £12,500 per annum

1969 £	1970 £	
—	5,626	**4 Share of profits of Associated Companies**
—	877	30% share of the profit of the McFee Holdings Pty Limited Group profit before tax for the six months ended 31st December 1970.
—	£6,503	Dividend from Robert Hudson (India) Ltd. in respect of the year ended 31st December 1969. In the latter case, it is the directors' opinion that it would be misleading to bring the Company's share of the profit for the year ended 31st December 1970 into these accounts.
		5 Taxation
192,600	281,840	U.K. corporation tax on Group Profit at 42½/40% (period 31st Dec. 1969—45%)
192,600	281,840	Less: double taxation relief
—	—	
241,740	306,640	Overseas taxation on profit for the year
241,740	306,640	
34,000	25,896	Overspill relief 1970/71
207,740	280,744	
—	2,824	Associated Companies
£207,740	£283,568	
		Future profits of the United Kingdom subsidiaries will be relieved from corporation tax by reason of losses carried forward, amounting to approximately £731,000. Overspill tax relief relates to Robert Hudson & Sons (Pty) Limited and represents the fifth year of transitional relief available to former Overseas Trade Corporations. No account has been taken in these accounts for this relief for 1971/72 estimated at £17,000.
		6 Exceptional items
—	21,500	Compensation for loss of office to a director of a subsidiary company
—	21,257	Costs of rebutting bids from Leeds Assets Limited
40,000	—	Exceptional stock write-off
40,000	42,757	
—	20,839	Less: depreciation provision no longer required on disposal of freehold property
£40,000	£21,918	
		7 Dividends
		Gross dividends:
1,690	3,380	Paid and accrued on 5% cumulative preference shares
		Ordinary and 'A' ordinary shares
—	101,801	Interim dividend paid 8¾% (1969 Nil)
93,075	116,344	Proposed final dividend 10% (1969 8%)
£94,765	£221,525	
		8 Profit retained in the business
26,726	(24,489)	Parent Company
54,705	83,449	Subsidiary Companies
—	3,017	Associated Company
£81,431	£61,977	

ROBERT HUDSON LIMITED AND SUBSIDIARIES

Balance sheet and consolidated balance sheet as at 31 December, 1970

Notes	1969 Parent Company £	1969 The Group £	1970 Parent Company £	1970 The Group £	NET ASSETS
					Current assets
1	—	2,650,342	—	3,665,701	Stocks
	4,658	3,545,058	23,285	4,580,575	Debtors and prepayments
	4,658	6,195,400	23,285	8,246,276	
					Current liabilities
	88,893	1,694,478	295,337	3,515,506	Creditors and accrued charges
2	1,308	90,586	649	118,091	Current taxation
	1,690	1,690	1,690	1,690	Gross preference dividend accrued
	93,075	93,075	116,344	116,344	Proposed gross dividend on ordinary shares
	—	33,871	—	19,273	Provision — employees' benevolent account
3	(169,179)	1,528,328	(464,979)	1,478,236	Net cash position
4	—	13,723	—	30,380	Secured loans
	15,787	3,455,751	(50,959)	5,279,520	
	(11,129)	2,739,649	74,244	2,966,756	**Net current assets**
5	—	941,594	—	952,162	**Fixed assets**
6	1,591,333	—	1,412,919	—	**Interests in subsidiaries**
7	5,519	5,519	74,071	77,088	**Interests in Associated Companies**
8	—	—	—	22,792	**Trade investment**
	£1,585,723	£3,686,762	£1,561,234	£4,018,798	**Total net assets**
					Representing
	Issued and fully paid		Issued and fully paid		**Share capital**
					authorised
	67,610		67,610		68,000 5% cumulative preference shares of £1 each
	930,754		930,754		932,000 Ordinary shares of 25p each
	232,688		232,688		250,000 'A' ordinary shares of 25p each
	1,231,052	1,231,052	1,231,052	1,231,052	£1,250,000
9	354,671	2,455,710	330,182	2,787,746	**Reserves**
	£1,585,723	£3,686,762	£1,561,234	£4,018,798	**Total funds**

directors R. HUDSON J. R. BINGHAM

The notes on pages [816 to 817] comprise part of these accounts.

Notes on balance sheet and consolidated balance sheet

1969 Parent Company £	1969 The Group £	1970 Parent Company £	1970 The Group £	
				1 Stocks and work in progress — valued at the lower of cost or net realisable value on a basis consistent with previous years
	2,650,342		3,628,035	
	—		37,666	Development expenditure
	£2,650,342		£3,665,701	
				2 Current taxation
1,308	11,867	572	572	United Kingdom taxation
—	78,719	77	117,519	Overseas taxation
£1,308	£90,586	£649	£118,091	

No provision is required in respect of tax equalisation
The employees' benevolent account represents a taxed provision and relief will be obtained on future payments therefrom.

				3 Net cash position — overdrawn
—	1,461,245	—	1,739,662	Bank advances (secured)
—	438,059	—	463,453	Bank advances (unsecured)
—	1,899,304	—	2,203,115	
169,179	370,976	259,979	519,879	Deduct: Cash at bank, in hand and in transit
—	—	205,000	205,000	Cash on short term deposits
£(169,179)	£1,528,328	£(464,979)	£1,478,236	Per balance sheet

The secured bank advances include £1,278,094 advanced by banks in respect of credit sales in Angola where no hire purchase facilities are available and are secured by customers' acceptances included in debtors in the balance sheet.

4 Secured loans

These loans carry interest at 8½% per annum and are repayable within 15 years.

land and buildings freeholds £	land and buildings long leasehold £	plant machinery furniture motor vehicles £	Total £	**5 Fixed assets — Group**
				Cost:
804,433	33,656	944,295	1,782,384	At 31st December 1969
66,385	8,103	172,304	246,792	Additions during year
2,828	9,451	—	12,279	Revaluation during the year
(116,847)	—	(98,120)	(214,967)	Disposals during year
756,799	51,210	1,018,479	1,826,488	At 31st December 1970
				Depreciation:
284,403	—	556,387	840,790	At 31st December 1969
(26,830)	—	(63,296)	(90,126)	Disposals during year
19,835	—	100,745	120,580	Depreciation for the year
277,408	—	593,836	871,244	At 31st December 1970
479,391	51,210	424,643	955,244	Net book value 31st December 1970
£520,030	£33,656	£387,908	£941,594	Net book value 31st December 1969

ROBERT HUDSON LIMITED AND SUBSIDIARIES

Notes on balance sheet and consolidated balance sheet continued

1969 Parent Company £	1969 The Group £	1970 Parent Company £	1970 The Group £	
				6 Interests in subsidiaries
1,675,042		1,675,042		Shares in subsidiaries at cost
197,292		162,407		Amounts owing from subsidiaries
1,872,334		1,837,449		
281,001		424,530		Less amounts due to subsidiaries
£1,591,333		£1,412,919		
				7 Interests in associated companies
				McFee Holdings Pty Limited:
—	—	49,886	49,886	30% of ordinary shares at cost (acquired in June 1970)
—	—	18,666	18,666	Debenture at cost
—	—	—	3,017	Company's shares of post acquisition profits retained by the McFee Group
—	—	68,552	71,569	
5,519	5,519	5,519	5,519	Robert Hudson (India) Limited — 50% of ordinary shares at cost less amounts written off
£5,519	£5,519	£74,071	£77,088	

The directors value these interests on the basis of the balance sheet values of net assets:

McFee Holdings Pty Limited—£85,000 (1969—Nil)

Robert Hudson (India) Limited—£40,000 (1969—£40,000)

8 Trade investment by Robert Hudson & Sons (Pty) Limited in an Angolan company, valued by the directors at book value of £22,792.

1969 Parent Company £	1969 The Group £	1970 Parent Company £	1970 The Group £	
				9 Reserves
				Balances 31st December 1969:
3,500	3,500	3,500	3,500	Share premium account
—	118,182	—	120,042	Surplus on sale of fixed assets
—	306,753	—	335,822	Arising on consolidation
366,931	1,716,931	366,931	1,716,931	General reserve
(42,486)	227,053	(15,760)	279,415	Unappropriated profit
327,945	2,372,419	354,671	2,455,710	
				Movements for the year:
—	1,860	—	257,779	Surplus on sale of fixed assets
—	—	—	12,280	Surplus on revaluation of fixed assets
26,726	81,431	(24,489)	61,977	Retained profit for the year
£354,671	£2,455,710	£330,182	£2,787,746	Balances 31st December 1970
3,500	3,500	3,500	3,500	Share premium account
—	—	—	12,280	Surplus on revaluation of fixed assets
—	335,822	—	353,264	*Arising on consolidation
351,171	2,116,388	326,682	2,418,702	*General
£354,671	£2,455,710	£330,182	£2,787,746	

*After transferring £17,442 (1969—£29,069) capitalisation of post acquisition profits being a bonus issue of shares by a subsidiary.

1969 Parent Company £	1969 The Group £	1970 Parent Company £	1970 The Group £	
—	£180,326	—	£362,000	
—	£11,338	—	£69,000	
£604,000	—	£604,000	—	
—	£235,397	£34,925	£784,281	
—	£3,166	—	3,166	
—	£4,238	—	£22,472	

10 Disposals of freehold properties

Disposals of freehold properties at a cost of £116,847 (see note 6) realised a profit of £257,779 transferred to reserves (note 9). Capital gains arising in the U.K. are covered by other trading losses and will not, therefore, be charged to corporation tax. The directors are advised that no liability to betterment levy will arise from these disposals.

11 Currencies

The Accounts of the Overseas Companies have been converted at the rates of exchange ruling at the date of the balance sheets.

12 Future capital expenditure

Outstanding capital expenditure authorised by the boards.

Contracts placed against these authorisations so far as not provided for in these accounts.

13 Contingent liabilities

(a) On guarantees on behalf of Robert Hudson & Sons (Pty) Limited

(b) In respect of bills discounted

(c) Outstanding claims

(d) Guarantees

Report of the auditors

to the Members of Robert Hudson Limited

We have examined the annexed balance sheet and consolidated balance sheet on page [816] and the consolidated profit and loss account on page [814].
The accounts of a subsidiary company and the associated companies have been audited by other firms.
In our opinion the balance sheet and the consolidated accounts comply with the Companies Acts 1948 and 1967, and give respectively a true and fair view of the state of the Company's affairs at 31st December 1970, and a true and fair view of the state of affairs and of the profits less losses of the Group.
PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants
Airedale House, Albion Street, Leeds
LS1 5TY.
11th May 1971.

CITY NOTES

ALTHOUGH the stock-market is now wallowing in the latest downpour of economic gloom, it can be argued that shares have held up very well considering the grim warnings from the National Institute of Economic and Social Research and the Bank of England, both of whom are far from happy with present conditions.

Both would welcome a more expansive economic policy and the National Institute has even dropped the hint that easier hire-purchase conditions would be a step in the right direction. The use of the Chancellor's 'regulator' must also be considered.

But the market is realistic enough to know that with the summer upon us, no major decisions are likely to be taken, a fact which suggests that the pro-expansionists will have to wait until around October before they can be satisfied, if at all.

There is nothing to stop the Government rejecting the pleas and letting the economy jog along until the next Budget in ten months' time. If the market decides that this is the case, the recovery will take that much longer.

* * * *

NOT this year, but possibly next year and certainly in the near future, the salaries of UK executives are going to reach the same level as those ruling in Europe. The gap has already closed in certain industries – notably food, drink, tobacco and chemicals – and it is rapidly closing in others.

An international survey of executive salaries carried out by Associated Industrial Consultants shows UK executive salaries have been rising at 12 per cent over the past year. The survey covered 30,000 executives in 1,500 companies in eight countries – the UK, France, West Germany, Spain, Australia, South Africa, Canada and the United States. Only in France, it seems, have executive salaries been increasing at a faster rate than in Britain.

Comparisons of salaries are made difficult, of course, by differing cost-of-living indices, taxation and fringe benefits. Most senior men in Germany get five weeks' holiday as do over a third in France; but very few UK executives get five weeks, and as many as 30 per cent have only three weeks.

But there is one area where the UK executive leads his rivals round the world. Just on 65 per cent have a company car compared with 61 per cent in South Africa, 49 per cent in Canada, 24 per cent in France and 20 per cent in West Germany.

* * * *

INDUSTRIAL AND COMMERCIAL FINANCE CORPORATION, which in the year to March 31st last saw group profit up from £10,784,000 to £13,446,000 and added ½ per cent to its dividend at 7½ per cent, anticipates somewhat less activity in the current year.

Commenting on the outlook, the ICFC chairman, Lord Sherfield, says that some decline in demand for its industrial financing facilities was seen before the end of the year. This downward trend has continued in the first quarter of the current year.

One factor in this has been that the clearing banks, who, incidentally, are the Corporation's shareholders, have announced new steps to provide finance for small- and medium-sized companies at relatively low rates of interest. The chairman welcomes this increase in opportunities for companies seeking finance, even though it has the effect of lessening business for the Corporation.

Nevertheless, the scope of the group's financial services has widened very considerably in recent years and Lord Sherfield feels that ICFC can still look forward to 'another year of profitable operation in 1971–72'. One way in which the Corporation looks for profit is by taking a modest participation in its customers' equity, either directly or by way of option. Satisfactory progress in this respect continues to be made.

RATES AND PRICES

Closing prices, Tuesday, June 15th, 1971.

Tax Reserve Certificates: (26.4.71) Companies 4½%; 2½% surrendered for cash; Personal 4%

Bank Rate

Nov. 9, 1967	6½%	Feb. 27, 1969	8%
Nov. 18, 1967	8%	Mar. 5, 1970	7½%
Mar. 21, 1968	7½%	April 15, 1970	7%
Sept. 19, 1968	7%	April 1, 1971	6%

Finance House Base Rate –June 1st, 1971. 7%

Treasury Bills

April 8	£5·7849%	May 14	£5·6517%
April 16	£5·7561%	May 21	£5·6276%
April 23	£5·7081%	May 28	£5·6318%
April 30	£5·6844%	June 4	£5·6090%
May 7	£5·6840%	June 11	£5·6064%

Money Rates

Day to day	2–5⅞%	*Bank Bills*	
7 days	4¼–6⅛%	2 months	6¼–6⅞%
Fine Trade Bills		3 months	6¾–6⅞%
3 months	7¼–7¾%	4 months	6¾–6⅞%
4 months	7¼–7¾%	6 months	6¾–6 15/16%
6 months	7½–8%		

Foreign Exchanges

New York	2·4187	Frankfurt	8·4781
Montreal	2·4775	Milan	1511·10
Amsterdam	8·6350	Oslo	17·2035
Brussels	120·45	Paris	13·3840
Copenhagen	18·1240	Zürich	9·9065

Gilt-edged

Consols 4%	43⅞	Funding 6½% 85–87	81⅝
Consols 2½%	26½	Savings 3% 65–75	88⅝
Conversion 3½%	38	Treasury 9% 1994	95¼
Conversion 5¼% 1974	97 1/16	Treasury 6½% 1976	98⅝
Conversion 6% 1972	100⅛	Treasury 3½% 77–80	74⅝
Funding 3½% 99–04	43½	Treasury 3½% 79–81	73⅝
Funding 4% 60–90	98	Treasury 5% 86–89	66¾
Funding 5¼% 78–80	84	Treasury 5½% 08–12	62⅜
Funding 5½% 82–84	79	Treasury 2½%	27
Funding 5¾% 87–91	71⅝	Victory 4%	96¾
Funding 6% 1993	71⅝	War Loan 3½%	37½

Call for Action on Inflation

Presidential Address at the ICWA Annual Meeting

THE 52nd annual general meeting of The Institute of Cost and Works Accountants was held in London last Saturday. Dr James M. S. Risk, B.COM., PH.D., C.A., F.C.W.A., J.DIP.M.A., F.C.I.S., F.B.I.M. F.I.O.M., M.I.M.C., was elected President for the ensuing year. The Vice-Presidents are Mr A. W. Howitt, M.A., F.C.A., F.C.W.A., J.DIP.M.A., and Mr C. A. Herring, B.SC.(ECON.), F.C.W.A., J.DIP.M.A.

Presidential address

In the course of his address to the meeting the outgoing President, Mr Stanley E. Woods, J.P., F.C.W.A., F.C.C.A., F.C.I.S., said:

My more recent predecessors have all been called on to address the annual general meeting at times when Britain's economic outlook was clouded with gloom.

This year we meet in an atmosphere of not unreasonable hope that, at long last, we have gone some way towards solving our balance of payments problem. The threat of national bankruptcy has receded for the time being at least. It is possible that we might have done better sooner had we listened less to the economists and more to our own consciences. Most of our troubles will eventually be seen to have been of our own making.

There has been a tendency to sit back and wait for some major policy decision by government to smooth our economic path, while all the time knowing full well that the golden rule for success in business, as in any other activity, individual or corporate, is to put more into the job than we take out of it.

Inflation accounting

For much of the past year, the accountancy profession, and many other knowledgeable people whose work brings them into contact with accountants, have given much thought to the stewardship of assets and of the ways in which this wealth is recorded and interpreted, particularly for shareholders in public companies.

The Accounting Standards Steering Committee of The Institute of Chartered Accountants in England and Wales, in association with the Institute of Chartered Accountants of Scotland and The Institute of Chartered Accountants in Ireland, recently called a special meeting to consider what should be done about inflation accounting. The ICWA and the other member bodies of the Accountant Joint Parliamentary Committee were all represented at the meeting. There were also representatives of the Department of Trade and Industry, the Board of Inland Revenue, the Confederation of British Industry, the Bank of England, the Stock Exchange, the Issuing Houses Association, the Panel on Take-overs and Mergers and the Society of Investment Analysts.

Possible ways of achieving a workable solution to this thorny and persistent problem were discussed. The meeting agreed that accounting for changes in the purchasing power of money was not a problem accountants could solve alone. Effective action would need understanding and support from industry, the City and other major interested groups. It was recognized, however, that the accountancy profession had prime responsibility for ensuring that accounts showed the real position.

The Institute has offered its support in this work, and members who have a contribution to make on the subject are requested to send them to the Secretary. Branches with Research Officers should organize special studies of this project; it deserves higher priority than any other studies in hand, except possibly that of value added tax.

An ICWA working party has been given special responsibility for reviewing the Institute's earlier work on the accountancy of changing price levels, which drew attention to the problem just 20 years ago, and suggested ways of tackling it.

While the accounting treatment of inflation is of great concern to the profession, and provides a searching examination of accountancy skills, it is of course only a major problem for trade and industry while inflation is running at a high rate. When inflation was at a steady average of about 3 per cent per annum, it did not justify the time and expense incurred in following the highly complicated procedures and techniques necessary for making adjustments.

Of more immediate concern to the entire community is the problem of what to do now about the present rate of inflation; how to check it, and how to fight against it. It is inflation as such which is a particular challenge to this Institute. I believe it is possible for us to do something about it. But let us first examine the matter.

Permanent feature

We are in danger of adopting permanently throughout our economic system an inflationary element now climbing beyond 8 per cent, a figure which has, for reasons which nobody is very clear about, moved up rather swiftly from between 3 and 4 per cent. It is becoming customary to include in budgets and forecasts a 'margin' of this order to cushion the possibility of inflation continuing at or above the present rate. This positively encourages price increases from raw materials onwards: if the provision is there, the increases, whether justified or not, are more easily charged and accepted. This destroys resistance – and creates a sense of insecurity.

Perpetual uncertainty about government intention and intervention used to be one of the reasons for 'sticking a bit on'. This appears to have become a habit.

The Government has made its policy perfectly clear. It has demonstrated its belief in minimum intervention in

trade and industry by dismantling organizations deemed unnecessary for the operation of private enterprise. The promised new approach to industrial relations and tax reform has been launched in Parliament and is well on its way.

'It is now', say the Government, 'entirely the responsibility of all engaged in trade and industry to help it get the economy into good shape. We will continue to keep an eye on the setting in which you work, and try to see that it continues to be advantageous for your efforts'. This I understand is being done by the Government's new action teams in Whitehall, directed by specially chosen leaders from industry, working alongside civil servants and using highly sophisticated techniques.

The aftermath of the wages and prices freeze was inescapable and it should have been obvious as a natural sequence of events, clear for all to see and to set course accordingly. It has become lost to view in the greater excitements of other contemporary events and is not generally held to be entirely responsible for sending the first of the present inflationary waves roaring on its way.

The Government may therefore be right in saying that unusually large wage increases are a major factor in the current severe inflation; but some of the larger wage claims were made after the consequences of inflation and the portents of more inflation to come had produced a climate for them.

Classical economic theory

Economists hold that inflation occurs where there is a state of disequilibrium between purchasing power which is increasing, and the output of goods and services which is not increasing to a corresponding extent, thus leading to a general rise in prices. It is highly questionable whether purchasing power is increasing, because high wage claims are being made in the wake of rising cost of living. In any case, the extra wages received are immediately mopped up in paying for the higher prices caused by wage gains won by workers in other industries.

It simply cannot be the case that the output of goods and services is not increasing to a corresponding extent. Never in our history has there been a more abundant, dazzling and tempting display of fascinating luxuries as well as the ordinary commodities and services of all kinds. Every shopping centre in the British Isles displays great quantities of goods, grown or produced in this country or imported from all quarters of the globe. The scale and the constancy of the marketing effort and the very considerable skill shown in all kinds of promotional media also make it difficult to accept this particular economic proposition. No one spends thousands of pounds promoting sales of goods in short supply.

What then are the other causes of our present high inflation? Has the policy of dear money anything to do with it? Is it of any significance that inflationary trends began to jerk upwards soon after high interest rates were used to curb flows of foreign money? Are we all living on too much credit? Has the colossal increase in gambling in all its forms taken too much out of the wages/purchase of goods cycle?

Some or all of these factors could be contributory causes of inflation – but could we be the real culprits? Have we not just fallen into an attitude of mind which is nothing less than a tacit agreement to let inflation rip – because it is the easy line of least resistance? So we no longer argue or grumble against price increases as we should do.

An easy policy

There are even some who accept the popular myth that inflation is good for business 'because it helps profits'. This really is the most dangerous nonsense. During years of severe inflation real income is significantly lower than reported income, taxes are paid on fictitious income, and depreciation does not provide for the real cost of replacing assets.

Managements which persist in this dangerously misleading and irresponsible view of the situation are also committing a social crime. By the thoughtless acceptance of automatic price increases they are robbing the young, who have yet to make their way, and the retired who have to live on fixed incomes with absolutely no defence against loss of purchasing power.

Some of us have just got to dig in our heels and bring the runaway down to walking pace. Action must be initiated by a few – in the face of possible opposition if not ridicule. The crowd will go blindly forward under its own momentum until leadership exerts itself.

During every working day millions of decisions have to be made on buying and selling. This is the place to stand and fight. This is where inflation can be made to crawl or to gallop. Boldness and courage on the part of members of this Institute could start a movement to help check the habitual increases in prices.

Concerted action is wanted by more firms in the same industry against common suppliers who constantly quote higher prices: resistance to price increases could be coupled with a demand that the suppliers examine their costs and look for economies. A start has already been made by some enlightened and public-spirited managements.

The attack on sources of supply should coincide with a reappraisal of one's own efficiency in costing and production planning, to add moral force to arguments with suppliers.

A public declaration of intent by a few major producers of basic commodities to investigate their costs with the object of holding prices steady by planned cost reduction would be a powerful brake on the pace of inflation.

Methodical cost control

Cost reduction is always a worth-while exercise for those who are determined to persevere in the search for increased productivity. The basic requirement is, of course, a sound modern system of costing and budgetary control.

It is amazing that in these times, after so much has been written and printed, broadcast, televised and talked about the value of methodical cost control and of the more sophisticated techniques used by our members, there are still many concerns in this country which honestly believe they are able to manage with their old notes-on-the-back-of-an-envelope method.

From time to time one hears rather sadly of companies failing for lack of proper cost and financial control, having neglected to diagnose loss-making situations in time for corrective action, or simply just running out of working capital. It is quite inexcusable when one looks at the range of techniques which have been developed to enable management accounting theories and principles to be applied to every conceivable type of business and service.

Any managing director who is uneasy about the true profitability of his company, and not having a qualified accountant with modern experience on his staff, should consider employing a consulting cost and management accountant to investigate and advise on the situation and its

The pounds won't take care of themselves

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Taking the optimistic view that we will succeed in bringing excessive inflation under control, we ought next to campaign for the introduction of comprehensive annual adjustments of all wages, pension rates, allowances, prices and charges at a carefully measured and agreed rate to compensate for a gentle inflation, so that nothing gets out of gear and all sections of the community get fair and equal treatment.

This annual adjustment I believe to be necessary simply because the whole of recorded history shows that a gentle inflation is inevitable. So long as our civilization is based as it is, with the human race continuing to multiply, medical science lengthening the expectation of life and with money as the means of exchange, there will be a gentle inflationary force to provide against.

Our specialized knowledge and close relationship with the whole apparatus for earning the nation's income give us the privilege and responsibility of leading a new attack on inflation.

Any success we achieve will have helped those in our society who most need sympathetic treatment and generosity.

Candidates for fellowship

At the annual general meeting, members also approved a Council resolution reducing by two years the minimum period of practical experience of cost and management accounting in a senior position required of applicants for fellowship.

As amended, the relevant article of the Institute's constitution now requires three years' approved experience, or five years in the case of a special applicant who has not passed either Part V of the Institute's qualifying examination or the former examination in management accountancy, in place of the periods of five and seven years respectively which were previously required.

Current Law

Companies: Reduction of Capital

THE Court has an overriding discretion to approve or decline a scheme for the reduction of a company's capital under sections 66 and 67 of the Companies Act 1948, and the fact that the appropriate resolutions may have been passed by the company and by each affected class of shareholders is not in itself conclusive.

A company proposed to cancel £1¼ million 5 per cent cumulative preference shares and to issue in their place the same nominal amount of 6 per cent unsecured loan stock, 1985–90. At a separate meeting of the preference shareholders, the trustees of three settlements having a majority holding of the preference shares voted for the scheme; the trustees of a fourth settlement, having a minority holding, voted against.

In the Chancery Division, Megarry, J, held that a scheme for the reduction of capital would only be sanctioned if the majority of the relevant class of shareholders voted in the bona fide belief that they were acting in the best interests of the general body of members of that class. Otherwise, the Court would only confirm a reduction if it were proved to be fair. In the present case, the evidence showed that those supporting the reduction had done so only on the basis of what would be for the benefit of their respective trusts and not in consideration of the interests of preference shareholders as a class.

The burden of proof was on those supporting the reduction to show that it was fair, and they had failed to discharge that onus. The proposed increase in the rate of interest fell far short of what was necessary to compensate the preference shareholders for the disadvantages arising from the reduction.

Re Holders Investment Trusts Ltd ([1971] 2 All ER 289).

Contracts: Ostensible Authority

THE old rule originally established in 1887, that a company secretary had no authority to enter into contracts, has now been overruled by the Court of Appeal.

P Ltd let motor-cars on hire, and the secretary of F Ltd supplied them with a list of dates on which cars would be required to meet his company's customers at London Airport. The printed form of hiring contract was in the secretary's name, and he signed the forms. The hire charges remaining unpaid, P commenced proceedings against F, who repudiated liability on the ground that the secretary had no authority to enter into the contract concerned.

The Court of Appeal unanimously held that F was liable; there was no doubt that F was a contracting party, on whose behalf P had hired out its cars. The position of a company secretary had altered greatly since 1887, and he was now an officer of the company with great responsibility. The signature of contracts relating to the administrative operation of the company came within his ostensible authority, and the company was bound by what he had done.

Panorama Development (Guildford) Ltd v. Fidelis Furnishing Fabrics Ltd (121 NLJ 501: *The Times*, May 28th).

STUDENT ROUNDABOUT

Strong Support for Stuart McDonald at London Society's AGM

OPPOSITION from Stuart McDonald, M.A., A.C.A., to London's proposal to halve its levy to ACASS gained the support of 24 members in a straw vote at the Society's annual general meeting on Tuesday of last week, while 26 were in favour of maintaining the levy in its present form.

This strong support for Stuart McDonald, together with the indications of support he has received from many of the smaller societies, bodes ill for London's proposal at the September ACASS conference to change its levy from a *per capita* basis to a voting basis. Of course, there is always the possibility of a compromise.

As both immediate Past Chairman of the Society and immediate Past President of ACASS, Stuart McDonald is well qualified to express fear that the wide recognition ACASS has lately received and the acceptance by the Institute of many of its proposals for the betterment of students could be abruptly halted through what he described under Roundabout on May 6th as 'this crazy and ill-conceived move by the London Society's committee'.

Before calling on Stuart McDonald to address the meeting, the Society's President, Mr G. R. Appleyard, F.C.A., explained that the Society had been advised by its lawyers that his formal resolution was ineffective, and it was consequently withdrawn. However, as the resolution was a controversial one, Mr Appleyard said that he thought it would be a good opportunity to debate the subject for the committee's guidance. 'I propose', he said, 'to take a straw vote which cannot be binding on this meeting'.

Stuart McDonald said he had withdrawn his resolution because the Society did not have the power to tell ACASS what it may or may not do. 'Nevertheless, it is within this meeting's power', he declared, 'to advise delegates representing this Society at the September ACASS conference what they should or should not do.'

Of the 18,000 chartered students, 10,000 belonged to London which was, he pointed out, strongly represented on the ACASS Executive by Stephen Parry, B.A., A.C.A., Chairman of the Society, John Underhill, B.A., the Society's Vice-Chairman, Kevin Lennon, and Mr Derek du Pré, Secretary of the Society, who is a Vice-President of ACASS.

'The levy the Society pays to ACASS should not', he said, 'be based on the Society's voting power rather than on the present per head basis of membership.' Stuart McDonald said that the effect of such a change would be that the Society would pay in the current year about £1,600 less to ACASS.

'This', he declared, 'would be a wrong and retrograde step.' Obviously, the other societies would have to pay considerably more if the levy was based on the voting power of the societies.

'For example, in a letter in *The Accountant* of June 3rd, by Margaret Fray, Chairman of the Southampton Society and a member of the Executive of ACASS, and Geoff Brown, secretary of the Portsmouth Society, they point out that they jointly represent 230 students. Their total income in a year is £345. On the present budget, they state that their ACASS levy would be £80; if this was changed to a voting basis it would be £252.' 'That', he said, 'would not leave them very much to have jam for tea!'

He calculated that if the voting was changed, Huddersfield, for example, would have to find this year £1·34 for every member, Leicester 47p and Lincoln £3·32. London, by contrast, would pay only 19p. 'It falls to London to provide the leadership of ACASS. We would be abrogating our responsibilities if we turned round and said "we are only going to pay for the votes that we get". Effectively, the

Stuart McDonald presents his views to the meeting.

Attentive listeners (*top*) at the London CASS annual meeting. *Centre:* William Baldwin speaking in opposition to Stuart McDonald's proposal. The Society's Chairman, Stephen Parry, addressing the meeting, with the President, Mr G. R. Appleyard, F.C.A., and the secretary, Mr Derek du Pré. *Bottom:* Richard Vinson asks for a compromise. Sheilagh Findlay, assistant treasurer, putting the Society's case.

change of basis would drive out from ACASS a very large number of the smaller societies bringing it into a very weak and sterile position.'

He was very doubtful whether the £1,600 saved by London would be better spent. For example, he pointed out that the recent ball at Hurlingham made a loss of several hundred pounds, the annual report was circulated to members at a cost of £1,300 and the *Green Pages* circulated at a cost last year of £4,200.

'Probably the most crucial and important point', said Stuart McDonald, 'was that ACASS benefited individual students. It did not benefit the individual student societies. Whatever benefits derived are to the direct advantage of individual students, so it is quite clear to me that the basis on which the levy should be raised is on a *per capita* basis and not on the voting power of individual societies.'

If this Society, he warned, proposed its resolution, it would create turmoil within the individual societies, many of which would have to leave ACASS, and London would be in danger of being put into considerable discredit.

In the ensuing discussion it was pointed out by William Baldwin, A.C.A., that London had, at present, 28·8 per cent of the votes on the ACASS Council and paid something like 54·2 per cent of ACASS's levy. 'The question of money was one of responsibility', he said. 'On this point about Southampton, their subscription is £1·50 per head and if our proposals go through it will be £2·50 per head, whilst our subscription is £4·50 and looks like being £5 in the near future.'

Richard Vinson asked whether it would be possible to work out some figure in between those quoted. He wondered whether the committee could think up some new resolution as a compromise between these two.

London's 28 per cent of the votes on a poll was quite a reasonable number, stated Miss Ann Dent, A.C.A., a past Chairman of the Society. 'If one brings in the other big societies', she said, 'one has the problem – are you going to allow three or four of the larger societies to have total sway over the whole 30?.' It was very important to allow all the societies to have a real say in the voting rights. She pointed out that the other societies had put in just as much work as London over the last five or six years.

The other societies, stated another speaker, although smaller, were far more active than London and he therefore felt they should be encouraged.

Miss Sheilagh Findlay, A.C.A., A.T.I.I., Assistant Treasurer of the Society, said that at the March ACASS Conference she realized that due to the increased activities of ACASS, London would have to pay a larger levy. She had put in a budget for £2,500, but found this was expected to be £3,500!

'We have already provided', she said, 'much of the leadership for ACASS and we help in all its work but we do not think we can go on paying out all the time when we do not have the money.' The Executive, she continued, seemed to be the only people who were really worried about the smaller societies' subscriptions going up. They do not have the high administration costs which we have and therefore most of their expenditure should be given to ACASS.

Summing up, Mr Appleyard said that the word compromise had been used a great deal and there was obviously a case for the many views to be considered and properly resolved.

Earlier, Stephen Parry, B.A., A.C.A., Chairman of the Society, while moving the adoption of the Society's report and accounts, referred to his recent visit to Strasbourg, where he had been a guest at a conference of the Paris section of the Association Nationale des Experts Comptables Stagiaires.

After the meeting, Stuart McDonald told Roundabout: 'I do not think the committee now has a mandate to sponsor the resolution. The closeness of the vote indicates the deep division of opinion in the membership on this issue. The committee has made its point to the other societies and it should now compromise and merely press for the smaller societies to bear a greater part of the direct expenses of conferences. I believe that this change would now be acceptable to ACASS.'

Membership of the Committee

Members elected or re-elected to fill vacancies on the committee were: Michael J. Laffety, Richard M. Vinson, Julian C. H. Dunlop, Jonathan J. Taylor, Jeffrey Lawson, A.C.A., Miss Alison Crozier, Michael D. H. Illingworth, Peter De Winton, John Underhill, B.A., Roderick Shire, Moelwyn Howell.

Institute/ACASS Education Council

THE main purpose of the Education Council held last Friday and Saturday at Chartered Accountants' Hall soon emerged as an opportunity to exchange ideas and problems encountered by the local investigating committees set up by the ACASS education conference in January (*The Accountant*, January 21st).

Organized jointly by The Institute of Chartered Accountants in England and Wales and ACASS, the council was attended by over fifty delegates and observers, representing district and student societies and educational bodies. In the chair was Mr M. G. Lickiss, F.C.A., a member of the Council of the Institute and chairman of the Joint Steering Committee set up to co-ordinate the results of the working parties.

Mr Lickiss, opened the conference by introducing the members of his committee and each delegate in turn. He stressed that the limits set for the Council were strictly within the area of discussion and enlightenment. It was not intended to be a decision-making body or to exercise the function of formulating policy. The objectives of the delegates were to produce guide lines for a revised system of technical education and to define and clarify the criteria and principles on which the education of articled clerks should develop. He stated that the important factor in any system of education is its effectiveness, and this should be achieved with the maximum efficiency.

Friday afternoon was devoted entirely to re-appraising and discussing the systems of education which are at present in use. The roles which correspondence courses, the public and the private sectors perform and their relative merits and demerits were thoroughly examined. As in January, the presence of several full-time education experts, attending as

Tony Cross, B.A., A.C.A., President of ACASS, *left*, with Michael Lickiss, B.Sc.(Econ.), F.C.A., the conference chairman, Bill Dorman and D. A. Clapham.

observers, helped to dispel many misconceptions and to explain technical difficulties.

The principal achievement of the afternoon was to highlight once again the varying standards and availability of education provided in different parts of the country. It was felt, however, that in all cases problems arose through a basic lack of co-ordination fostered by insufficient consultation and liaison.

The council continued on Saturday morning with the emphasis changing to a revision of the system of technical education. It was felt necessary to establish certain aspects of future development as essential to any debate on a new structure. It was agreed that the university graduate had no further need of academic training whereas the 'A' level entrant required a preliminary, academically-orientated foundation course before proceeding to study for the Institute examinations.

It was pointed out that exposure drafts on the future examination syllabus had been widely circulated for comment in October last year. This fundamental revision of training must necessarily be the basis of any proposed system.

The delegates then proceeded to discuss what should be the essential features of a programme of education. Oral tuition supplemented by written work was confirmed as being the most appropriate method for teaching the technical subjects required. The whole plan should be one in which all interested parties were involved, including students, teachers and principals. So often in the past available facilities had been neglected or had failed because of a lack of co-ordination in this field.

At the final session consideration was given to possible solutions. Once again it was emphasized that it would be premature for this council to attempt to solve the problem. This should be the function of a further conference to be assembled when the investigating committees had completed their reports on local conditions and a clearer picture of what was required on a national scale had been obtained. Early autumn was set as a deadline for the completion of reports.

The council closed after lunch and the delegates left with a fuller understanding of the national situation on education and with a considerably clearer picture of the goals they were working towards.

BIRMINGHAM ARRANGING OLYMPIC GAMES VISIT

FOR a cost of between £60 and £120, Birmingham CASS can, if there is sufficient demand, arrange for members and friends a charter holiday to the Munich Olympic Games in August and September next year.

The Society will act as agent to introduce groups to a sports travel firm and negotiate the best possible terms. The holiday is likely to be by air and include demi-pension hotel accommodation and other items such as transport to and from the Games. The number of rooms available is limited as there are many countries who will share in the allocation of accommodation.

Those wishing to visit the Games will obviously do best to travel in a group as the facilities for individual holiday arrangements will be strictly limited.

It is emphasized that no action can be taken by the Society until it knows how many are interested. A questionnaire form is obtainable from P. E. Baldwin, c/o the Library, Fountain Court, Steelhouse Lane, Birmingham B4 6EA.

Donald Rich, F.C.A., *left*, with Anne Holbourne, Mary C. Wilson and Jock Worsley.

Notes and Notices

PROFESSIONAL NOTICES

Mr JOHN F. CHAMPION, F.C.A., announces that as from June 25th he will practise as JOHN F. CHAMPION & Co, at 10 Memorial Road, Walkden, Worsley.

HARMOOD BANNER & Co (Birmingham firm) and AGAR BATES, LEDSAM & Co announce the retirement of Mr P. T. NEAL, F.C.A., with effect from May 31st, 1971. Mr NEAL remains available in a consultative capacity.

HARMOOD BANNER & Co (Manchester firm) announce that Mr JOHN F. CHAMPION, F.C.A., will retire from the practice on June 25th, 1971.

FRYER WHITEHILL & Co, Chartered Accountants, regret to announce the death of Mr RICHARD STEVEN FRYER, F.C.A., who has been joint senior partner of the firm since its incorporation and senior partner of FRYER SUTTON MORRIS & Co since 1941.

APPOINTMENTS

Mr Michael R. W. Berry, F.C.A., a full-time senior executive of Sulzer Bros (London), has been appointed a director of the company.

Mr John Dyment, a partner of Arthur Young & Co, United States, has been appointed managing director of Arthur Young Management Services, a new company formed as an unlimited liability company to carry out the management consulting practice previously conducted by Arthur Young & Co.

Mr J. S. Gilks, F.C.A., group chief accountant of Averys, has been appointed to the board of the company.

Mr A. K. Jackson, F.C.A., A.T.I.I., has been appointed group chief accountant of Baker Perkins Holdings.

Mr W. G. Lovatt, F.C.A., has been appointed to the board of H. J. Barlow & Co.

Mr G. S. Palmer, F.C.A., has been appointed financial director of Metal Centres Ltd, an Alcan Booth Industries company, with effect from June 1st.

Mr L. S. Payne, F.C.C.A., has become director of technical services and development at the National Freight Corporation headquarters.

Mr Leslie W. Peters, C.A., financial controller of Hollingdrake Automobile Co, has been appointed a director of the company.

Mr R. F. J. Stafford, A.C.A., F.C.I.S., has joined Tridant Group Printers as group chief accountant.

Mr Neil C. Campbell, F.C.A., finance and administration manager of Panocean Shipping & Terminals, has been appointed secretary of the company.

Mr N. C. Campbell. Mr G. F. Howard.

Mr G. F. Howard, M.A., A.C.A., has been appointed chief accountant of University Computing Company (Great Britain) with responsibility for the accounting functions in UCC Ireland and UCC Netherlands.

Mr G. Maitland Smith, F.C.A., a partner in Thornton Baker & Co, is retiring from the firm to become an executive director of Sears Holdings on August 1st.

Mr R. Michael Summers, A.C.A., has been appointed a director of London City & Westcliff Properties. He will continue in his position as secretary of the company.

Mr M. J. R. Townsend, F.C.A., financial controller and director of A. F. Stoddard & Co, has joined the board of Stoddard Holdings, and Mr R. J. Hart, C.A., has been appointed secretary of the company.

DOUBLE TAXATION

Federal Republic of Germany

The protocol amending the double taxation convention between the United Kingdom and the Federal Republic of Germany has now been published as a schedule to an Order in Council, numbered SI 1971 No. 874.

IN PARLIAMENT

International Investors Group

Mr J. P. W. MALLALIEU asked the Secretary of State for Trade and Industry whether the inquiries into the affairs of the International Investors Group were conducted by his Department; what report was made to him; and whether he will make a statement.

Mr RIDLEY: Inquiries have been made by the Department under section 109 of the Companies Act 1967. In view of the provisions of section 111 of that Act, we cannot publish or disclose the information so obtained. Further inquiries are being made but we cannot at present make a statement about them.

Hansard, May 28th, 1971. Written answers, col. 274.

National Savings Review Committee

Mr BRUCE-GARDYNE asked the Chancellor of the Exchequer if he will announce the membership of the committee he is setting up to review National Savings. [*The Accountant*, April 8th.]

Mr BARBER: I am pleased to announce that the following have accepted my invitation to serve on the committee under the chairmanship of Sir Harry Page: Professor R. J. Ball, Mr J. M. Clay, Mr J. G. Gulliver, Mr Geoffrey Heywood, M.B.E., Mrs A. M. Ward-Jackson.

I placed copies of the terms of reference of this committee in the libraries of both Houses on March 30th after my Budget speech.

Hansard, June 9th, 1971. Written answers, col. 347.

Decimal Currency Board

Mr TEMPLE asked the Chancellor of the Exchequer whether he can now state on what date he proposes that the Decimal Currency Board should be wound up.

Mr HIGGINS: The Decimal Currency Board considers that its remaining tasks can be completed within the next few months and has formally recommended that arrangements should be made to wind up the Board on September 30th.

We have accepted this recommendation, and, accordingly, an Order has been laid before both Houses of Parliament today under section 6 of the Decimal Currency Act 1967, providing for winding-up and dissolution of the Board on September 30th, 1971.

Hansard, June 10th, 1971. Written answers, col. 367.

LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

New Chairman

Mr K. G. Bishop, F.C.A., has been elected Chairman of the London and District Society of Chartered Accountants for 1971–72.

Mr Bishop was articled with Pike Russell & Co and was awarded the Plender Prize for Auditing and a certificate of merit. He has spent most of his career in industry, having been a management consultant with Harold Whiteheads, chief accountant of Yardley, a director of Morganite Crucible and financial controller of Carreras. In July he takes up a new appointment as financial director of the Debenham Group.

He is only the third Chairman of the Society to come from the non-practising side of the profession since

the war; the others being Sir Basil Smallpeice, Chairman in 1947–48, and Mr C. W. Aston, who was chairman in 1958–59.

Married and with two children, Mr Bishop endeavours to maintain active interests outside his professional and business life. He paints, has recently taken up sculpture and has been a keen sailor for many years.

The new Vice-Chairman of the Society is Mr E. E. Ray, B.COM., F.C.A., a partner in Spicer and Pegler.

BIRMINGHAM SOCIETY'S NEW PRESIDENT

Mr Eric Sayers, F.C.A., deputy chairman and managing director of Duport Ltd, and a member of the Council of the Institute, is the new President of the Birmingham and West Midlands Society of Chartered Accountants.

Admitted to membership of the Institute in 1939, he subsequently served in the RAF from 1940 to 1942 when he was seconded to the then Ministry of Aircraft Production working on cost investigation.

Mr Sayers entered industry in 1946 serving with a number of companies including a leading firm of management consultants, the Tube Investments Group and BSA Ltd. He joined

his present company in 1956 as group accountant, being appointed managing director in 1966 and deputy chairman this year.

Following the Privy Council's amendment of bye-law 5 of the Institute, under which membership of the Council was allowed to be increased, Mr Sayers was among 15 new members appointed to the Council of the Institute in 1966.

He is a member of the Technical and Investigation Committees and is one of the Institute's representatives on the Joint Diploma Board for the Joint Diploma in Management Accounting Services.

Mr Sayers lists as his recreations (when business commitments permit), golf and gardening.

Other officers elected for 1971–72 are:

Vice-President: Mr C. A. Lee, F.C.A.
Secretary: Mr N. J. Masterton, F.C.A., Fountain Court, Steelhouse Lane, Birmingham B4 6EA.
Assistant Secretary: Mr P. R. Dallow, F.C.A.
Treasurer: Mr J. R. Adcock, F.C.A.
Librarian: Mr B. G. Rose, F.C.A.
Dinner Secretary: Mr M. D. Stirling, F.C.A.

Annual Report

In a well-designed, report a clear review of the Society's year begins by recording that membership at December 31st increased by 135 to a total of 2,926. Of these, 986 were in practice, 1,928 not in practice and there were 12 'invited' members.

Under the heading 'Further Education', the report details an ambitious programme presented for members both in practice and industry. There were six general-subject evening meetings, two specialist courses on management information appreciation, and electronic data processing, two half-day conferences, and, in conjunction with the Liverpool Society, a residential conference last April on business finance. The taxation and business discussion groups, notes the report, held regular meetings throughout the winter months.

As befits so progressive a Society, its standing committees held numerous meetings dealing principally with recruitment, careers conventions, smaller practitioners, liaison with the students' society, and with various education authorities and colleges. The Society was also active at sport in which members participated at golf, cricket, tennis and hockey matches.

The Warwickshire, Wolverhampton and North Staffordshire Societies all had full and varied programmes.

DOUBLE TAXATION

Germany

The Protocol amending the Double Taxation Convention between the United Kingdom and the Federal Republic of Germany has now been published as a schedule to an Order in Council numbered SI 1971 No. 874.

LEEDS, BRADFORD CHARTERED ACCOUNTANTS

New President

Mr Thomas L. Waring, B.A., F.C.A., a partner in Pannell Fitzpatrick & Co, of Leeds, is the new President of the Leeds, Bradford and District Society of Chartered Accountants.

Educated at Oundle and Clare College, Cambridge, where he played as a 'war-time rugger blue' against Oxford in 1939, Mr Waring was subsequently articled in 1940 to Mr Frank Hartley, F.C.A., of Smithson, Blackburn & Co, of Leeds – now Pannell Fitzpatrick. His articles interrupted by the war, he served in the Royal Artillery, nearly all the time in the Far East, attaining the rank of Captain.

Mr Waring returned to Cambridge to complete his degree course in 1946, graduating the following year when he joined his present firm. He was admitted to membership of the Institute in 1949 and made a partner in his firm in 1951.

President of the students' society in

1961, Mr Waring has, for a number of years, been an active member of the senior society of which his father was President in 1936. Apart from serving as a member of the committee, he has held various offices including that of treasurer from 1960–69. During his period of office, he looks forward to more participation by members in the activities of the Society.

Married with three children – a boy and two girls – his main outside interests, when business commitments permit, is golf at which he 'held at one time a low single handicap', and shooting. He is also treasurer of Leeds Girls High School Parents' Association.

Other officers for 1970–71 are:

Vice-President: Mr Brian R. Cahill, F.C.A.
Treasurer: Mr William J. A. Smith, F.C.A.
Secretary: Mr Cyril Luxton, F.C.A., c/o Messrs Rawlinson, Greaves & Mitchell, 1A Manor Row, Bradford BD1 4PF.

NEW HULL PRESIDENT

Mr E. G. Chadwick, F.C.A., partner in Fawley Judge & Easton, Chartered Accountants, of Hull, has been elected President of the Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants for 1971–72.

A former student of the Society of of Incorporated Accountants, Mr Chadwick passed the Society's intermediate examination in 1938. After the war, he was articled to his present senior partner, Mr L. F. Judge, F.C.A., and was admitted to partnership when he qualified as a member of the Institute in 1953.

He was President of the Hull Students' Society in 1955–56, and has been honorary secretary of his District Society since 1966 – a post which for the coming year will be combined with his presidency.

Outside his professional activities, Mr Chadwick displays a great interest in public work, having been a member of Haltemprice Urban District Council for 16 years and chairman of its finance committee since 1965. He is a member of the accountancy section of the Hull Incorporated Chamber of Commerce and Shipping, a school governor, chairman of the Kingston upon Hull Accident Prevention Council, president of the Cottingham and District Horticulture Society, and joint chairman of the Haltemprice Drama Festival Committee. Married, with three children, his leisure interests include travel, the theatre, dancing, walking and gardening.

Other officers elected for 1971–72 are:

Vice-Presidents:
Senior: Mr Malcolm M. Strachan, F.C.A.
Junior: Mr J. T. Bootyman, F.C.A.
Secretary: Mr E. G. Chadwick, F.C.A.
Acting Secretary: Mrs V. M. Franks, Fawley Judge & Easton, 1 Parliament Street, Hull.

CHARTERED ACCOUNTANTS' GOLFING SOCIETY

The seventy-second annual general meeting of the Chartered Accountants' Golfing Society was held recently at the Guildford Hotel, Sandwich, Kent, under the chairmanship of Mr D. V. House.

Mr S. A. Letts, the retiring Captain, addressed the meeting and proposed that Mr House should be elected President for the ensuing year. This proposal was carried unanimously and Mr House was duly elected President, and he thanked the meeting.

Mr J. V. Wilson was elected Captain and the retiring Vice-Presidents, Messrs L. R. Elcombe, L. E. Parsons, E. H. Wingfield, H. W. Pitt, L. V. Mills, H. C. Staines and R. A. Daniel were re-elected.

The following were also elected:

Vice-Captain: Mr P. J. Hughes.
Hon. Secretary and Treasurer: Mr E. H. Head.
Hon. Match Secretary: Mr D. G. Richards.
Hon. Auditor: Mr N. Grenfell.

Messrs R. Anderson, W. J. Leeming and A. W. Coleman were re-elected to the Committee, and Mr S. A. Letts was elected to the Committee.

The leading results of the competitions were as follows:

Captain's Prize (presented by the retiring Captain, S. A. Letts)	*Pts*
First: D. G. Richards (17) (wins Ernest Cooper Cup and Captain's Prize)	34
Second: C. P. Nielson (13)	32
Third: J. O. R. Darby (13)	31
J. H. Shaw (12) (wins Elcombe Rose Bowl)	30
P. J. Hughes (4) (wins Scratch Prize)	26
Saturday foursomes	
First: J. F. Sloan (9), H. D. Nicholson (3)	31
Second: N. Grenfell (13), C. D. Thomas (16)	29
Sunday foursomes	
First: P. J. Hughes (4), N. Grenfell (13)	32 7/16
Second: A. W. Coleman (12), E. J. Nicholls (18)	32 2/16
Third: H. D. Nicholson (3), C. D. Thomas (16)	31 5/16

A. O. Miles Challenge Cup (1970)
Won by Arthur Young & Co.

1972 Meetings

Wood Cup: Berkshire GC, April 20th, 1972.
Annual Meeting: Prince's GC, May 6th–7th, 1972.
Summer Meeting: Sunningdale GC (to be confirmed).
Autumn Meeting: North Hants GC, September 29th, 1972.

THE ORGANIZATION AND METHODS SOCIETY

Zambia Branch

At the inaugural meeting of the Zambia branch of The Organization and Methods Society held recently at the Institute of Technology, Kitwe, Zambia, Dr R. K. Sethi, B.COM., PH.D., A.C.I.S., A.A.I.A., M.O.M.S., was elected Chairman, and Mr A. G. Gooch, B.SC.(ECON.), A.M.O.M.S., was elected Secretary.

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THE ACCOUNTANT

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AN INDUSTRIAL REVOLUTION

DISALLOWANCE OF LEASE-BACKS

TAXATION OF BENEFITS IN KIND

COMPUTER APPROACH TO ACCOUNTING DATA

ORGANIZING MANAGEMENT FOR A CHANGING ENVIRONMENT

PLANNED SOURCE DOCUMENTATION

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V.R.V. COOPER

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This book is published on behalf of the General Educational Trust of the Institute of Chartered Accountants in England and Wales.

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THE ACCOUNTANT

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June 24th, 1971

The Recognized Weekly Journal for the Accountancy Profession throughout the World

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An Industrial Revolution

THERE are, no doubt, quite a number of differing explanations for the UK's poor industrial performance in recent years – which may be why Mr Heath and Mr Feather appear at times to be talking about quite different subjects when they discuss the economy. Yet no responsible observer will seriously contest the proposition that much of the current weakness of British industry can be attributed to poor management-labour relations.

Admittedly, there are countries where the man-hours lost due to strikes may, in the aggregate, exceed the UK's current record figures. It would be difficult, however, to find an economy in which relatively small numbers of employees, often without official union support, have so often brought large sections of major industries to a halt.

Many strikes and walk-outs are due to unsatisfied demands for pay, but it would be a serious mistake to attribute all our labour problems to this one particular cause. To start with, there is still far too much mistrust between labour and management. Nor is the fault invariably with labour; too many managers still hanker after the 'hire and fire' methods of the inter-war years.

On the other hand, labour has not always been as co-operative as it might have been; often it has failed to abide by agreements signed on its behalf, usually in exchange for substantial financial benefits. This is the real background against which the new 'Code of Industrial Relations Practice' must be assessed.

However urgently needed industrial peace may be, the fact must be faced that it will not be achieved overnight. Human nature is not so flexible, and education takes time. But this is what the code is about; an attempt to educate both sides of industry to a greater awareness of their respective roles and responsibilities. It is one of the sadder facts of post-war life in Britain that an increasing awareness of individual and collective rights has not been matched by a corresponding readiness to recognize responsibility to society. The comment: 'I'm all right, Jack', is no longer funny, if ever it really was.

The code is based upon the simple proposition that industrial relations are best conducted by collective bargaining between employers and strong representative trade unions. It makes the obvious, but all too frequently overlooked, point that what is required is a 'reasonable and constructive approach by both sides, both of whom must be prepared to co-operate on solving their problems, to make a real effort to understand each others' point of view and . . .', let it be stressed, '. . . to abide by agreements'.

The layman may find it incredible that there can be dispute on such elementary truths. Yet to the manager whose cynicism has grown during the post-war period with a surfeit of 'bloody-mindedness' on the shop floor, they must seem no more than pious platitudes. Union officials doubtless have equally strong grounds for similar sentiments. Only the shop-steward, conscious of the realities of industrial power, sees nothing wrong in a situation in which he and his fellows wield the real authority.

For all the emphasis on cost-effectiveness and value analysis, together with the techniques of efficient management which the professional and industrial accountant may bring to British industry, there can be no hope of real economic progress without a sound basis of management-labour co-operation. It is fervently to be hoped that the new code will provide a first firm step along this very long road and, in its implementation, the accountancy profession will have more than most to contribute by its skills and its role within industry.

Disallowance of Lease-backs

THE accounts of the Austin Reed group of companies for the year ended February 6th, 1971, signed by the auditors on May 3rd, 1971, included the following note under the heading 'Taxation':

> 'The Commissioners of Inland Revenue have claimed additional corporation tax in respect of rent on leasehold properties held by Austin Reed Ltd, but the company has been advised by two leading counsel that these claims are ill-founded, and accordingly no provision for them has been made in these accounts. If the Revenue were ultimately to be successful in respect of all their claims for the periods February 13th, 1966, to February 6th, 1971, the additional tax liabilities could total approximately £475,000 (1970: £350,000).'

However, on April 28th, the Special Commissioners had already disagreed with the two leading counsel and had confirmed an assessment disallowing additional rents payable as a result of lease-back transactions. The Special Commissioners had held that:

(*a*) The sale and lease-back of the property were interdependent and essentially one transaction.

(*b*) Additional rent payable under the lease-back was paid in order to obtain a capital sum and not merely to secure the rights to occupy business premises.

The company announced that this was clearly contrary to the way in which the 1952 and earlier Acts had been interpreted, and contradicted the original intention to treat rental expenditure properly laid out in carrying on a business as deductible in arriving at profits for tax purposes. Alleging that the decision did not turn upon any special features of the Austin Reed transaction and that the Revenue had admitted that the whole principle of the lease-back was under attack, the company is proposing to appeal to the High Court.

The prospect of lease-back rent being retrospectively disallowed for six years must be an extremely daunting one. In marked contrast to their usual silence on such topics, the Inland Revenue lost no time in issuing a counter-announcement. This denied that the Department was mounting a general attack on the tax treatment of arrangements for sale and lease-back of property. There is no question, according to the Inland Revenue, of changing the Revenue's attitude towards (our italics):

> '*normal* and well-known kinds of lease-back arrangements under which, for example, a freehold building or a *substantial* leasehold interest is disposed of but the original owners continue to occupy it under a lease for a *long* period. But there have been recent cases in which leases for *short* periods have been disposed of in return for the capital sum which is *in substance* then repaid out of an increased rent, the original lessees continuing in occupation. As a result of a recent decision by the Special Commissioners of Income Tax, which may well be taken to a higher court, the tax treatment of arrangements of this kind is *sub judice*.'

This statement seems to raise as many uncertainties as it seeks to remove. What is the difference between 'long' and 'short'? When is a leasehold interest 'substantial'? When does a lease-back rent become 'in substance' the repayment of a capital sum?

Lease-back transactions were the subject of legislative attack as long ago as 1964, in legislation now enshrined in section 491 of the Taxes Act 1970. A typical example of the device under attack was the case of a trading company owning its own business premises which granted a long lease of them to a property dealer in consideration of a capital sum and a very small rent. The company then took a lease-back of the same property on terms under which an excessively high rent was paid in the first few years (in effect the capital sum already received) and a negligible rent for subsequent years. At that time the Inland Revenue were plainly under the impression that they could not successfully challenge the deduction of the rent as a business expense even though it exceeded the commercial rent. Section 491 restricts the deductions to the commercial rent, but allows for the carrying forward of the disallowed amount for allowance in succeeding years.

If the lease-back rent does not exceed a commercial rent, section 491 has no effect.

The next incident in the saga is the House of Lords' decision in *CIR v. Land Securities Investment Trust Ltd*

48 ATC 185), a profits tax case. The company lessee purchased the freehold in consideration of a ten-year rent-charge which fell within section 177 of the Income Tax Act 1952. Nevertheless the House of Lords held that the rent-charge comprised a capital and an interest element, and that the capital element must be disallowed for profits tax purposes.

This decision was followed by the Court of Appeal in *McGregor v. Littlewoods Mail Order Stores Ltd* (48 ATC 216). There a trading company disposed of its long leasehold interest in its trading premises, procured the sale of the freehold to its wholly-owned subsidiary, and took an under-lease at a much higher rent than it had been paying under the original long lease. The increase, amounting to £19,006 per annum was disallowed on two grounds, namely, that it was not wholly and exclusively incurred for the purposes of the trade and that it was in any case a capital payment.

Thus the matter has followed a familiar path in tax history. First of all a loophole is found, but as long as not very much tax escapes through it the Inland Revenue acquiesce. Then someone uses the loophole to such tremendous effect that a departmental attack is made upon it. The attack proves successful (and at the same time proves that partial anti-avoidance legislation had all the time been unnecessary). This success in the more striking cases encourages the Inland Revenue to attack the less striking ones.

CURRENT AFFAIRS

Pension Provision

SOME concessions were made by the Government during the Committee stage on the Finance Bill on issues which have been raised in *The Accountant* December 17th, 1970, and April 22nd, 1971), concerning provision for the retirement of those who are not members of an employer's retirement scheme.

No concession has been offered in regard to the limit on relevant earnings of £10,000 for the purpose of determining qualifying premiums. Hope has, however, been held out for some increase in the amount of qualifying premiums for those who were already over age 40 when the original legislation governing retirement annuity contracts was introduced in 1956. The Government has also recognized that there is a case for permitting the provision under such a contract of a lump sum benefit on death before retirement. It is considering, too, whether it has chosen the right formula for determining the amount of the lump sum which may be payable on retirement.

At the same time, the Government has admitted that the restrictions imposed on the membership of employers' retirement benefits schemes in the case of some controlling directors' are too severe. It appears to be contemplating some liberalization of the present provisions under which, in a director-controlled company, a controlling director is one whose interest is as little as 5 per cent. It has promised, too, to reconsider how far under such schemes a payment on death of a member before retirement of a lump sum representing his own contributions should give rise to any tax liability.

New Council Members of the Association

THE Council of The Association of Certified Accountants has been strengthened by the appointment of three more non-practising members. They are Mr L. F. Pocock, F.C.C.A., Professor J. R. Small, B.SC.(ECON.), F.C.C.A., J.DIP.M.A., and Mr R. A. Spencer, F.C.C.A., F.C.I.T., A.T.I.I., M.B.I.M.

Mr Pocock, a member of the Association for the last 20 years, has had a distinguished career in the insurance industry. He was appointed assistant accountant of the London & Lancashire Insurance Co in 1954, becoming its chief accountant in 1959. He is now chief accountant and taxation manager of the Royal Insurance Group, which incorporates his former company.

Professor Small is an honours graduate of London University and was admitted to membership of the

Mr L. F. Pocock.

Professor J. R. Small.

Mr R. A. Spencer.

Association in 1959. In 1960 he became the first full-time lecturer in accountancy and business methods at Edinburgh University, moving to a similar appointment at Glasgow in 1964. He has held the chair of accountancy and finance at Heriot-Watt University – one of the largest departments of accountancy in the United Kingdom – since 1967; he is also a member of

the Business Studies Board of the Council for National Academic Awards.

Mr Spencer, a member of the Association since 1961 and currently chairman of its management information services committee, was appointed financial director of BEA earlier this year. The whole of his professional career has been in air transport; he was appointed BEA's chief accountant in 1957, and in 1967 became supplies and services director, with particular responsibility for its 'Beacon' computer system.

Deputy Secretary for the Association

MR W. H. F. LOVETT, F.C.C.A., has been appointed Deputy Secretary of The Association of Certified Accountants. He is at present head of staff training for the P-E Consulting Group, and principal of their management training centre at Egham; he expects to take up his new appointment in November.

As a former Territorial, Mr Lovett was swept into the army on the outbreak of war in 1939, and was commissioned in the Middlesex Regiment in 1941. He went to North Africa with 78 Division, subsequently serving with the Eighth Army in Sicily and the Fifth Army throughout the Italian campaign.

After the war, Mr Lovett had experience with several firms of practising accountants, including W. A. Browne & Co and Cooper Brothers & Co. He was admitted to membership of the Association in 1958, and in that year also joined P-E, where he has been ever since except for one year's secondment to Plessey in 1963–64. During the last two or three years he has been responsible for a very substantial expansion – of the order of 500 per cent – in the scale of the group's external training activities.

Mr Robert Bell, an assistant secretary of the Association and editor of the *Certified Accountants Journal*, has been appointed Director of Information. He is a former practising barrister and Royal Engineer officer, and the author of several travel books dealing predominantly with America and with the Mediterranean countries.

Industrial Trends

THE outlook for manufacturing investment in Britain has continued to deteriorate in recent months. If present intentions remain unchanged, the fall in manufacturing investment in 1971 is likely to be followed by a further fall in 1972, and there has been a marked increase in the number of firms working below capacity. A similar decline has been recorded in the general level of employment, sales orders and export prospects. Substantial increases, on the other hand, have been encountered in both costs and prices, and further increases are expected.

This gloomy picture emerges from a survey of industrial trends conducted by the Confederation of British Industry over a sample of more than 1,300 member firms during the two weeks ending June 2nd. There is clear evidence of a low level of activity in manufacturing industry, and firms are generally less optimistic about the general business situation than they were four months ago. Substantial increases in costs have not been reflected in either domestic or export prices, resulting in further pressure on profit margins.

The CBI finds the implications of the export results, in particular, worrying in the light of probable entry into the European Economic Community. This would also require a substantial increase in industrial investment, for which the CBI recommends as an incentive 'depreciation at choice' combined with investment allowances in development areas.

Speaking recently to German industrialists at Düsseldorf, Mr John Davies, M.B.E., F.C.A., J.DIP.M.A., Secretary of State for Trade and Industry, said that no prices and incomes policy could be a replacement for the healthy impact of competition. 'Within the concept of international competition, no single step is more important to us than our hoped for membership of the EEC. The Government firmly believes that industry in Britain will face successfully the challenge of the wider market that such membership presents. In doing so it will contribute to its own strength, to the strength of Europe and to the welfare of all our peoples.'

Lease-back Anomalies

AN amendment to the Finance Bill, which would have the effect of clearing up the uncertainty in the leasehold market arising from the Austin Reed case, was moved by Mr W. G. H. Clark, F.C.C.A., M.P., earlier this week.

Speaking from his office the following day, Mr Clark confirmed that the Inland Revenue recognized this uncertainty and had promised a further statement, probably before Parliament rose at the end of July. In view of the complexity of the matter, and the need to consult with various interests, it was unlikely that amending legislation could be introduced before the 1972 Budget, but an undertaking had been given that such legislation would, when enacted, be retrospective to Monday last, June 21st.

Whilst the Inland Revenue have indicated that they do not intend to attack lease-backs at a fair commercial rent, they are likely to remain firmly opposed to transactions in which an excessive 'rent' is in fact the repayment of a capital sum.

Britain's Invisible Lead

THE United Kingdom increased its surplus on invisible transactions between 1964 and 1968 by nore than any other country except the United States, nd its 1968 earnings were far greater than those of its European competitors. But its share of world invisible eceipts fell appreciably during the period.

Between 1960 and 1968, world trade in invisibles grew at a faster pace than visible trade, and in 1968 ccounted for 26 per cent of the total trade. Britain's nvisible earnings in 1968 totalled $8,100 million, eing one of the very few countries that had surpluses n all types of invisible transactions excluding governnent expenditure.

These are among the trends revealed in an analysis of vorld invisible trade published earlier this month by he Committee on Invisible Exports. This analysis hows the invisible transactions of 25 leading countries nder the four headings of transport, travel, investment ncome, and other services.

As we remarked on this page in our issue of June th, 1970, and again in a leading article on December 7th, the overseas earnings of Britain's accountants orm a significant part of 'other services', and have lready made a major contribution to Britain's favourble position in this field.

The Shareholder Today

THE development of limited liability has had tremendous repercussions upon the structure of ndustry. It has enabled industrial empires to be reated within the control of a few men; it has had he effect, at least in the case of public companies, of livorcing management and ownership. It has been vident in recent years that this divorce has often led nanagements to pursue policies which are of less value o the shareholders than to the staff or employees, or he public image of the company.

In a paper entitled 'Industry and Shareholding', prepared by Mr Mark Weinberg for the Industrial Educational and Research Foundation, the point is nade that the shareholder of a large quoted company as surrendered his ability to control the ultimate use f his money in exchange for the ability to sell his shares f he is not happy with the way the company is being un. This is true but, in view of the relative ignorance f the average shareholder of the conduct of affairs in uch companies, he may not know when to sell; ask ny small shareholder in Rolls-Royce.

The one investor who could effectively oppose the nanagement is the institutional investor. But, notes Mr Weinberg, here the problem is how to put forward a ational and effective alternative to the unsatisfactory nanagement. The only time such institutional opposiion is effective arises when the company proposes hanges in its capital structure. In any case, most nstitutional investors are experts in investment, not in management. Nevertheless, it is clear that the scales are heavily weighted against the small investor in the protection of his interests and, short of entrusting his money to the institutions for investment, it is difficult to see what he can do.

Mr Weinberg agrees that there is no point in him attending the annual meeting – a 'poorly attended ritual' – but, unless shareholders do make their presence felt on such occasions they will continue to be mere legalistic rituals. Currently, notes Mr Weinberg, the sale of shares and the consequent price fall plus the risk of take-over bids constitute a degree of pressure on directors.

V & G Repercussions

MOTORISTS who were not insured with the Vehicle & General are, nevertheless, suffering from its collapse in a variety of ways – as, for example, where a Vehicle & General policyholder was solely responsible for an accident. Normally, provided the insurers of the innocent motorist could recover the full amount of the claim from the other party's insurers, his no-claim discount would not be affected at renewal; but with full recoveries impossible, no-claim discounts will suffer.

Motorists may be able to recover uninsured losses from V & G policyholders in person, although in such cases the defendant may not have the means to satisfy a judgement.

The liquidators of V & G are seeking to recover more than £1 million in claim recoveries from other companies, and an even larger sum from brokers for premiums. This has proved an area of considerable difficulty, as some brokers are disputing the amount due, and others allege that they have been unable to collect the premium from policyholders.

Clearly, the scale of the V & G collapse – as in previous cases – is to some extent attributable to the quality of the brokers who handled the business. It is significant that barely 5 per cent of V & G business was handled by members of the Corporation of Insurance Brokers.

DCB Report

DECIMAL currency was introduced into the United Kingdom on February 15th, and by March 31st, according to the latest report of the Decimal Currency Board, the decimal coins had already pushed out the £*sd* ones. It is claimed that over 90 per cent of traders went decimal during the first week, quickly driving out the old coins and reducing to a minimum the confusion which must be anticipated when old and new currency systems are in use together.

As already announced (*The Accountant*, May 20th) there is every prospect of an earlier end to dual currency than was at first envisaged, and August 31st, 1971,

has been mentioned as a possible date for demonetization of the old 1*d* and 3*d* coins. Of the large number of these coins still unaccounted for, it is suggested that many may be in home savings or charity boxes of one kind or another.

Nodding Off

AFTER more than 30 years of devoted service in the community, the Women's Royal Voluntary Service this week issued its first report. The statistical work was entrusted to a former mathematics teacher, according to *The Daily Telegraph*, 'of undoubted probity, who has done her work in a style which Price Waterhouse & Co would pass on the nod'.

Of course, even Homer reputedly nodded, and the most eminent members of the profession may on occasion do likewise. But, *pace* the undoubted probity both of the WRVS and its statistics, we hesitate to suggest that Price Waterhouse or any other professional firm is in the habit of passing figures on the nod.

Public relations were foreign territory to the late Marchioness Reading, founder of the WRVS, and she reputedly took a great deal of persuading that the service might go to the lengths of producing an annual report. The slogan of this remarkable enterprise – 'Not why we can't, but how we can' – merits more than a passing nod of recognition.

THIS IS MY LIFE

The Worm that Turned

by An Industrious Accountant

THE personnel director wore a worried expression; he chewed on his cigar and grunted. He had a problem, he said, cocking an eye at me, a personnel problem! I did a spot of sympathetic murmuring so he poured more coffee and continued.

It was about his new subordinate. Prinny had previously been supported by a weedy sort of dogsbody who worked diligently at 'gathering information' (composed for the most part of newspaper cuttings and assorted unreliable rumours) and who was basically scared stiff of his boss. He left us to sub-manage a fish and chip restaurant, so Prinny advertised for a replacement.

He was rather grandiose in his initial efforts, was our Prinny. Candidates should desirably have university degrees in the behavioural sciences, or be interested in the humanities, with a proven record of successful dealings with their fellow-men's social and/or domestic problems. Strength of character, judgement, ability to handle shop-stewards from our transport section or trade union representatives at boardroom level, unerring character analysis, loyalty, discretion, and so on, were the hinted at qualities but not, of course, actually specified.

He got shoals of replies and interviewed about 20 of them, because with an experienced personnel manager the short-list policy is strictly for others. Besides, he generally has plenty of spare time.

The selection process proved heavy going. The chosen candidates were required to complete enormous questionnaires detailing their past lives, like ghostly foretastes of Big Brother watching them; inevitably those who showed up best on paper proved worst on personal inspection.

He didn't mind them being hairy, Prinny explained; after all, he'd seen his share of shaggy chins in his destroyer-convoy days, but those unkempt manes were out. He didn't mind them quoting Karl Marx, who'd become respectable in this decade, but they'd asked him his views on several foreign-sounding johnnies he'd never even heard of. One chap was actually planning to do a post-graduate thesis on industrial anthropology based on his work here; just as if we were a bunch of so-and-so monkeys!

Still, he'd finally picked a likely youngster, he said, nice-looking boy, not over-educated for our particular job, and with some past experience. The work-load had been shown to him, with its responsibilities of recruitment, rotational training, career development and promotional opportunities for our big staff. (In practice, be it known, the line managers do all this in their daily contacts and discussions as a matter of course, but the personnel manager likes to feel it's his own achievement, so we don't disillusion him.)

Then, Prinny continued, he'd revealed the outline of the more Olympian responsibilities to be anticipated, the assessment of appropriate pay-scales, the awarding of annual increments, and the hard bargaining over cost-of-living awards. (Actually, these just follow the national patterns pretty closely, but our director rubber-stamps them quite efficiently.)

Prinny sat back dramatically for the denouement. Our latest recruit, he revealed, had commented that all that was fine; but what did we propose to do to update it?

Taxation of Benefits in Kind

III – Tax-free Benefits and Gifts

by L. OSBORNE, A.T.I.I.

Such is the rigour of the fiscal system which we have come to accept, that it is often taken for granted that any receipt or benefit of whatever nature must of necessity bring in its wake a tax assessment and in due course the Collector's demand.

The object of this article is to outline those tax-free benefits still obtainable under Schedule E legislation.

AT a time when the fiscal net is gradually being extended and its mesh made smaller, it is advisable to keep in mind that income tax is still, basically, a tax on income and that a receipt can only give rise to liability if it falls specifically within the provisions of the taxing statute.

Although the legislation concerning persons assessed under Schedule E is particularly severe, there are still receipts which fall outside the scope of taxing provisions, whilst certain types of benefits are specifically exempted from assessment either by the Acts or by extra-statutory concessions.

Broadly speaking, these exemptions fall into three categories:

(*a*) Exemptions conferred by statute.

(*b*) Exemptions conferred by extra-statutory concessions.

(*c*) Exemptions arising by judicial interpretation of statutes.

Statutory exemptions

It will be appreciated that under the provisions contained in sections 195 and 196 (1)[1] 'any sum paid in respect of expenses by a body corporate to any of its directors or to any person employed by it' as well as expenditure incurred on the provision for such persons of 'benefits or facilities of whatever nature' shall be treated as emoluments of office and assessed to tax, unless it can be established by a claim under section 189 that such expenditure was incurred 'wholly, exclusively and necessarily in the performance' of duties of office or employment.

It is, therefore, the object of statutory exemptions to exclude from assessment such of the expenditure incurred for the benefit of directors or employees as it is not the intention of the legislation to bring within this sphere of taxation, without impairing the all-embracing effectiveness of the charging provisions.

The following expenditure is exempted from assessment, by statute:

(1) Expenses incurred by a body corporate on the provision of any accommodation, supplies or services in any of its business premises for the director or employee himself and used by him solely in performing the duties of office or employment (section 196 (2)).

(2) Expense incurred by a body corporate on the provision for an employee (but not a director) of living accommodation in any of its business premises for the purpose of enabling him properly to perform his duties (section 196 (3)). The exemption does not extend to the cost of such incidental expenses as light, heating or other amenities the benefit arising from which will be liable to assessment.

(3) Expenses incurred on the provision for directors or employees of meals in any canteen in which meals are provided for the staff generally (section 196 (4)).

(4) Expenses incurred on the provision for a director or employee himself or for his spouse, children or dependants of any pension annuity or lump-sum gratuity or other like benefit to be given on his death or retirement (section 196 (5)).

(5) Under section 412, any redundancy payment made under the Redundancy Payments Act 1965 and any corresponding amount of any other employers payment shall be exempt from assessment under Schedule E.

(6) Under section 188, payments made to an employee or his dependants upon termination of employment due to death or disability may escape assessment.

(7) Also under the above mentioned section 188, payments of compensation for termination of the holding of the office or employment or any change in its

Previous articles in this series have appeared as follows: 'Directors' residence', January 28th; 'Travelling expenses and motor-car', March 18th.

[1] References are to the Income and Corporation Taxes Act 1970 unless otherwise stated.

functions or emoluments, may also escape assessment under Schedule E to the extent that they do not exceed the sum of £5,000.

Extra-statutory concessions

Benefits which may be derived from extra-statutory concessions are not, generally speaking, of great value in real terms. It seems clear that the object of their being granted is mainly that of implementing the exemptions given or implied from legislation, with the view to reducing the amount of administrative work and negotiations which might otherwise arise.

The main concessions affecting persons assessable under Schedule E are as follows:

(1) Flat-rate allowances to cover cost of tools and special clothing. These are normally negotiated by the trade unions or other organizations, but do not debar employees from seeking higher allowances under section 189, where appropriate. (Concession No. A1.)

(2) Meal vouchers not exceeding 15p per working day per employee, so long as they are not transferable and (where their issue is restricted) are available to the lower paid staff (A3).

(3) Travelling expenses of a director, whether whole-time or part-time, of two or more companies within one group or of associated companies, necessarily incurred in travelling from the place where his duties are mainly performed to any other place of business within the group. The concession is extended to a person who is an employee of one of the companies in the group and a director of another (A5 (*i*)).

(4) Travelling expenses of a director who gives his services without remuneration to a company not managed with a view to dividends (i.e., a non-profit-making entity) (A5 (*ii*)).

(5) Reasonable expenses incurred in the execution of duties paid by a company to a director who holds a directorship as part of a professional practice and has no direct or indirect financial interest in such a company.

Note: Travelling expenses listed in paragraphs 3 to 5 above include reasonable hotel expenses, necessarily incurred.

(6) Removal expenses (including a temporary subsistence allowance) paid by the employer, where the employee has to change his residence in order to take up a new employment or as a result of transfer to another post within the organization, provided such expenses are of a reasonable amount and their payment is properly controlled (A6 (*a*)). Whereas the wording of this concession specifically mentions an employee, the Institute of Directors have obtained from the Revenue the agreement that it should be extended also to directors, and that the concession should apply to persons who prior to removal were not in the employ of the company or of an associated company.

(7) Concession A6 (*b*) extends the benefits of exemption of assessment of representative occupation of the company's premises as living accommodation, granted by section 196 (3) (see above) to full-time directors holding not more than 5 per cent of the company's ordinary share capital, so long as their emoluments, inclusive of benefits, do not exceed the sum of £2,000 per annum. The exemption does not cover the cost of light, heating and other expenses incurred with the occupation of the premises, but additional allowance may be made in case of a director occupying a patently old-fashioned or too large a house.

Gifts as emoluments

One of the more complex aspects of fiscal legislation not previously mentioned in this series, which has been the subject of litigation on several occasions in recent years, is the question of gifts derived by directors or employees in circumstances when these could clearly be attributed to the appointments held or the functions performed by the donees.

In general, gifts and gratuities do not give rise to taxation in the hands of the recipient unless they are, as in the case of tips given to taxi drivers or waiters, of a recurring nature and made in circumstances where it is customary for the recipient to expect such rewards as part of his remuneration.

Experience shows that it is not unusual for directors or executives to receive gifts of cash or kind, of considerable value and the question then to be decided is whether these receipts are to be regarded as taxable perquisites of office or gratuitous non-taxable presents.

There is of course no specific provision in the Acts for taxing receipts of this nature and the relevant charging section (section 183 (1)) merely states that 'tax under Cases I, II or III of Schedule E shall be chargeable on the full amount of emoluments . . . and the expression emoluments shall include all salaries, fees, wages, perquisites and profits whatsoever'. On the other hand, the attitude of the Inland Revenue on this subject is that the word profit is capable of covering any form of receipt and that 'an employee is liable to pay tax under Schedule E on everything received by the employee as such, unless it is received for full consideration in money or money's worth other than services as employee'. (Cohen, LJ, in *Hochstrasser v. Mayes* (38 ATC 360).)

It is interesting to note that this proposition is by no means confined to gifts passing from the employer to the employee, and would appear to extend to presents received from other parties. This attitude, coupled with eagerness to seek judicial intervention whenever a submissive agreement is not forthcoming, has given rise to a particularly large number of tax cases.

There seems to be a general consensus of the judicial minds that, in order for gifts to be liable to tax, the office or employment must be *causa causans* (the reason for the gift being made) of benefit and that it is not

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sufficient when the office is merely a *causa sine qua non* of the gift.

'The fact that someone who receives a benefit is the holder of an office does not by itself prove that what he received was a profit from the office. That has to be decided by considering on the evidence whether what was received was received as remuneration for services rendered in the office.' (Lord Justice Morris in *Bridges v. Bearsley* (1957) (36 ATC 87.))

Transfer of shares

In the case of *Bridges v. Bearsley* and *Hewitt v. Bridges* (1957) (36 ATC 87) concurrently heard by the Court of Appeal, the appellants were the managing director and secretary of Meccano Ltd, who with another director and Mr Frank Hornby, the founder of the business, had been mainly responsible for the growth and expansion of this company. During his lifetime, the founder transferred relatively small blocks of shares to his three co-directors. Upon his death in 1936 the bulk of founder's shares were settled under a will trust on the widow for life and thereafter on his two sons.

In 1945, the sons undertook by deed to transfer 20,000 shares to the three directors, upon the death of the life-tenant, in recognition of their services to the company. The shares were eventually transferred in 1953, when the life-tenant was still alive, and the Revenue contended that the shares came to the appellants as profit from their employment with the company.

On appeal, the Special Commissioners held that:

(*a*) If the deeds of covenant only could be considered, the shares were not transferred as an act of remuneration; and

(*b*) If the deeds could be considered together with verbal evidence available, the conclusion would be the same.

The Court of Appeal held (reversing the decision of Danckwerts, J), that the shares received by the appellants were not profits from their employment with the company.

In concluding his judgment, Lord Morris said:

'I agree with the learned judge that the acquisition of shares was linked up with the services of Mr Bearsley . . . for if he had not served and held office with Meccano Ltd he would never have had the shares. But I do not think that it follows from this that the shares were profits from the office. In my judgment the shares were not a profit from the office of the managing director because they were not received by way of remuneration for services rendered as managing director . . . they represented an expression of gratitude or a testimonial for what had been done, including what he had done before he ever became a managing director.'

A similar principle was upheld several years earlier in *Cowan v. Seymour* (1920) (7 TC 373) in which case the appellant acted as secretary of a company from the date of its incorporation until he was appointed liquidator, without receiving any remuneration. Upon completion of liquidation, the shareholders voted that a sum of money remaining on hand, and distributable to them in accordance with the memorandum of association, should be given to the chairman and the appellant, in equal shares.

The Court of Appeal held that this payment was not assessable under Schedule E because (*a*) the payment was made not by the employer but by the shareholders, and (*b*) the employment had ceased before payment was voted.

Another case where a payment of money to an employee was held by the Court not to constitute an assessable emolument of office is *Hochstrasser v. Mayes* (1959) (38 ATC 360). The case is of particular interest as, unlike the instances quoted above, the payment there, though not in the nature of a gift, was actually made by the employers.

Interest-free loan

The facts were as follows. In 1950 Mr Mayes, an employee of ICI, was transferred by the company to Lancashire and purchased a house with the assistance of the company's housing scheme. Under this scheme, the company provided an interest-free loan secured by a mortgage on the house, which did not have to be repaid until 15 years had elapsed or the employee died or left the service of the company. The company also undertook to make good to the employee any loss which he might sustain on sale of the house, due to a subsequent transfer, death or retirement.

In 1954, Mr Mayes was again transferred by the company (to Yorkshire) and, having made a loss on the sale of his house amounting to £350, was refunded this sum in accordance with the terms of the agreement which he had signed upon entering the company's housing scheme. The Revenue assessed the sum of £350 as an emolument of office, but the appeal was allowed by the General Commissioners.

The House of Lords held, affirming the decision of the Court of Appeal, that £350 was not a reward for the respondent's services and did not constitute a profit of his employment.

In the course of his speech, Viscount Simonds quoted from the judgment of Mr Justice Upjohn, in the High Court:

'In my judgment, not every payment made to an employee is necessarily made to him as a profit arising from his employment. Indeed, in my judgment, the authorities show that to be profit arising from the employment, the payment must be made in reference to the services the employee renders by virtue of his office and it must be something in the nature of reward for such services.'

His lordship found this statement entirely accurate.

Lord Denning so summarized the position:

'In the last resort, each case must be brought back

to the test of the statutory words. So tested, the question simply is: was this £350 received by Mr Mayes a profit from his employment? I think not, for the simple reason that it was not a remuneration or reward or return for his services in any sense of the word.'

Statutory restriction

It has been suggested that the provisions of section 37 of the Finance Act 1960 (now contained in section 187) would render the payments in at least one of the above mentioned cases liable to tax.

This section is primarily directed against golden handshakes and other presents arising on retirement or removal from office, but its terms are wide and could be made to apply to most gifts and gratuities given to persons assessable under Schedule E, as long as these could at some stage be related to a termination of employment.

In *CIR v. Morris* (1967) (44 ATC 462), a scientist employed by the Atomic Energy Authority was seconded, with a number of other employees, to the South of Scotland Electricity Board, in order to supervise and assist in the completion of Hunterston nuclear generating station. He remained in the employment of the Atomic Energy Authority who continued to pay his remuneration but four-fifths of his time was to be spent on the work for the Electricity Board at Hunterston, and the Board refunded four-fifths of his remuneration to the Authority.

The Hunterston generating station was completed in July 1964, and the taxpayer left the service of the authority and entered that of the Electricity Board.

At Christmas 1964, the chairman wrote to Mr Morris that the Board were delighted with the success of Hunterston and, although it was appreciated that he had been employed and fully remunerated by the Authority, they wished, as a mark of appreciation to make him a gift of £1,000.

Similar presents were made to certain members of the team who together with Mr Morris had been engaged on the completion of the Hunterston project, but other members of the team received nothing.

A 'personal gift'

Mr Morris was assessed under Schedule E in respect of the gift. On appeal, the General Commissioners discharged the assessment on the grounds that the sum constituted a personal gift and not a profit of employment, and this decision was confirmed by the Court of Session.

Lord Migdale stated:

'By the words of the statute, a sum of money received by one person from another is assessable under Schedule E only if it was an emolument arising from his employment. In this case, this £1,000 was not part of salary or fees. It might be "a profit whatsoever" but did it "arise from" his employment? The General Commissioners have taken the view that it did not but was given out of gratitude and appreciation. As the donor was not the employer, I think the motive behind the gift is relevant and that means that in this case the recipient got it because of his personal qualities. In other words, it did not arise from his employment, but from the gratitude of the donor, and on that view it is not assessable.'

The Lord President (Lord Clyde) enumerated the following *rationes decidendi* of the case, as follows:

(1) That the sum of £1,000 was paid several months after the respondent ceased to be employed. 'In my view this factor alone points to the payment being not remuneration for services but as an expression of gratitude by the Board to the respondent.'

(2) The payment was made, not by the respondent's employers but by the Electricity Board.

(3) 'This was a once and for all payment, not a periodical or recurring payment'; hence it is 'a present and is not taxable as the profits arising out of the employment'.

(4) The letter from the Board offering the sum of £1,000 clearly stated that the payment was not a supplement to the salary paid by the Authority. It recognized that the recipient was already fully remunerated by his employers, and specifically offered a gift as a mark of appreciation on the part of the Board.

It is interesting to note that the provisions of section 37 of the Finance Act 1960 were not invoked in this case by the Inland Revenue, although the element of termination of employment was present in no lesser degree than in the two cases previously quoted.

One can therefore draw the conclusion that the application of the provisions of section 187 are more limited in scope than their wide terms of reference would suggest, and whilst there is little doubt that the Revenue will continue in their practice of pressing assessment in respect of all sums received irrespective of the motive or origin, it is evident from the analysis of the decisions on this subject that the judiciary are not likely to allow the liability to arise unless the circumstances are such as to place the case clearly within the meaning of the taxing provisions.

Some consolation

In these days of high personal taxation, the value in real terms of gifts received may be considerable, as long as no tax liability arises on the donee. However, as it is unlikely that the benefit could accrue without recourse to litigation, the taxpayer may perhaps draw some consolation from the words of Lord Simonds in *Hochstrasser v. Mayes*:

'It is for the Crown, seeking to tax the subject, to prove that tax is exigible, not for the subject to prove that his case falls within the exceptions which are not expressed in the statute but arbitrarily inferred from it.'

The Computer Approach to Accounting Data – II

Practical Data Preparation

by HAROLD LUCAS, B.Com., B.Sc.(Econ.), A.C.I.S., A.I.S., A.M.B.I.M.

BY data preparation is implied the preparation of data in a form that is suited to computer input. Examples are the punching of cards or paper tape or direct encoding on to magnetic tape. The speed of computer processing may cause us to lose sight of the fact that such preparation time must be included if comparisons are to be made with, say, conventional ledger-posting machine systems. The high manpower costs alone of this stage of the total computer process would justify some of the attempts made recently to break through this barrier. It has been estimated that one person out of every thousand of the working population is employed in key-punching.

Data may be classified according to the speed with which it changes. For computer purposes we may consider there are two classes:

(*a*) *Constant* or *master* data, which tends to remain unchanged over relatively long periods, examples being the names and code numbers of stock items, and the names, addresses and account numbers of customers.

(*b*) *Transaction* or *movement* data, which occurs at intervals throughout the operation of the business and which is related in some way to the master data. Examples would be the issue of items from stock, sales to customers and receipts from them.

Data processing generally implies that the net result of the movement data up to the time of the computer run is associated with its relevant master data. This is what is termed *updating* a master file.

Origination of master file

From the point of view of data preparation, the master file has to be originated before the system can operate. Files maintained originally by ledger-posting equipment will have to be copied, perhaps on to punched cards, magnetic tape or discs. Even with visible-record computers the striped cards will all have to be prepared so that the information will be available in the magnetic stripes.

Once established, the master file is normally updated during the computer run and the new updated master file is output in a similar medium, becoming the source of information for the next posting run.

Master file data may have to be varied, for example new stock items or customers may be included, corrections may have to be made to names, addresses may change, there may be deletions etc. Such changes may be made by a variations run on the master file before the updating run takes place.

The type of recording medium used for the master file has a major impact on the method and speed of processing that can be used and also on the accessibility of data. Magnetic tape storage is probably the most widely used, with the records in strict order, which order must be followed by the updating material. Discs are likely to play an increasing part in the future.

While the master file should cause no problems, once it has been encoded, the movement data, on the other hand, has to be prepared to cover every transaction that occurs.

Controlling data

The accuracy of data must be controlled. This should go back to the source documents, to avoid clerical errors. Our immediate concern is control at the data preparation or conversion stage. As well as the checks familiar in the case of conventional data processing, such as control totals using pre-lists, and hash totals (where, for example, customers' account numbers may be totalled, the result being meaningless but providing a check on whether the numbers have been copied correctly), and the verification of punched cards and tape, a number of checks have been devised to prevent the acceptance of incorrect data by the computer. Among these may be mentioned:

(*a*) *Parity checks*, widely used in various media to pick out impossible combinations, say, of holes in punched tape, by arranging, with the aid of an extra column, that all combinations will consist of odd (or even) numbers of holes. Users of paper tape punches will be familiar with the annoyance caused if the equipment gets out of adjustment and generates such parity errors.

(*b*) *Check digits*, used in connection with numerical or alphabetical codes. An extra digit (or possibly two) is added to the code so that when all the digits are combined in a particular way there is a constant result. Some modern encoding equipment, for example key to magnetic tape, holds the data in suspense until such a check has been automatically made.

The program for the particular computer run involved will probably have inbuilt checks for sequence, counts of items, overflow, compatibility of data and data limits, and the accumulation of totals needed for crossfooting. There is

The first article in this series appeared in *The Accountant* of June 3rd, at page 730.

an increasing tendency to screen data very thoroughly, using a small computer, before it is processed on a larger computer. This is often referred to as *housekeeping*.

Keyboards and terminals

Probably the simplest form of computer input is from the console of the computer itself. In modern computers a very limited number of keys or switches will be available to control the basic functioning such as 'on', 'off', 'standby', 'reset', 'initial instructions', etc.

There will probably also be a control typewriter from which other control codes can be generated, and which may also be used for the input and output of limited volumes of data. The typewriter reads (or prints) one character at a time, which implies that the rate of operation is very slow.

A development of the control typewriter is the *terminal*, of which there may be a large number, either in the form of a teleprinter or of keyboard with a video display unit, to which may be linked a unit for hard copy print-outs. These were considered in the previous series of articles on 'Finger Tip Computing' (*The Accountant*, July 30th, August 6th and 20th, 1970) and will not now be considered in detail.

For commercial data processing, the volume of work renders such input methods inappropriate, apart from their use for items such as run date and other low-volume information which may be called by the particular program. In such cases the instruction in the procedure division of a COBOL program will be ACCEPT (or DISPLAY for output) instead of the normal READ (or WRITE) where files are being handled.

An interesting variation of the typewriter kind of terminal is the terminal designed for factory data collection which may incorporate numeric keys for entry of variable data, a digital display, a card reader and a badge reader (for security purposes). A reader such as Feedback Data Collection Systems general-purpose terminal reads ordinary punched cards and plastic badge cards, while a special purpose terminal, incorporating a clock, is available for recording attendance, idle time, etc. Various stations are linked through a receiver from which a direct computer link may be provided, or the data may be encoded on to tape, cards, etc., off-line (see Fig. 5).[1]

[1] Figures 1 to 4 appeared in the previous article of this series.

Fig. 5. Shop floor data collection system.

Punched cards

Higher speeds of input (and output) can be obtained by using punched cards or punched paper tape. The equipment is similar to that used with punched card processing systems and with teleprinter systems. The cards (or tape) must first be punched and then verified, which generally involves a repetition of the punching process. With paper tape it is possible to verify either by punching a second time and comparing with the first version or by generating a print-out at the first punching and checking this by reading in the normal way. These punching operations are *off-line*, that is they are completely separate from the computer and can proceed at a speed and at a time that is convenient to the work to be done. When the cards or tape are used as input to the computer they must be fed into an appropriate reading device.

Key-to-tape

The input rate can be speeded up by running the cards first through an off-line device which encodes the information contained in them on to magnetic tape, which is then mounted in a magnetic tape drive for processing. Error checking can be incorporated in the encoder.

The use of cards may be admirable in many situations, but they tend to be bulky and the rate at which they can be handled is slow compared with some other techniques. Because of this, *key-to-tape* devices have been developed so that data can be directly encoded on magnetic tape. These devices may incorporate check digit entry. Various models are available that, in addition to encoding, can print out data from a magnetic tape, verify data on a tape, search a tape for specified records, consolidate several tapes into one, with the omission of selected data or the inclusion of extra data via the keyboard, and some models can be used to transmit data over telephone circuits. Advanced models combine many of these features together with card reading, printing, adding and listing.

More recently systems have been developed which enable several *stations* (up to 64 on one system), each with its own operator, to be used simultaneously to deal with high-volume work. Such systems rejoice in a variety of names, such as Keyplex (Honeywell), Key Processing (Computer Machinery Corporation) and Centralized Data Entry (Mohawk Data Sciences).

Broadly the principle of operation is that the operator stations, which are basically keyboards with character and control keys, are linked on a time-sharing basis, to a central control unit with a supervisory console, a computer with stored programs relating to the encoding, a magnetic disc unit and a magnetic tape unit. The disc will have a program library for the formats of the different records that may be encoded and any appropriate one may be selected. It may also store encoded data in bulk which can be transferred to magnetic tape, after appropriate manipulation. The transfer from the disc to the tape unit is controlled from the supervisor (see Fig. 6).

Verification may be by sight on the data display or by re-keying from any station, resulting in a comparison being made with what was previously keyed, a mismatch resulting in an error indication. The correction is made after depressing a reset key. Precise details vary with the different models of equipment. It may be possible to verify concurrently or after the completion of a batch. The CMC system has an auto-balance option, for numeric data, which compares keyed totals with controls previously established.

Fig. 6. A multi-station key-to-magnetic tape system.

Document readers

The methods of handling bulk data for computer purposes so far considered assume that the data must be specially encoded on a medium suited to computer input. This generally involves translating the data from original documents into a computer code using key-punching or related methods. The aim of *character recognition* is that the original documents should be capable of being read both by humans and by computing devices.

In a limited sense the standard code for 80-column punched cards satisfies this requirement since it is possible for a clerk to read what is punched in the cards. If the card has been punch-printed, or has been interpreted subsequent to punching, the reading is made easier. Mark sensing, where cards are marked with a special pencil, of which the effects can be subsequently sensed by a special punching machine and so translated into holes, was a definite step in the direction of eliminating the manual punching and verifying of data.

Full character recognition requires that information printed or typewritten (and possibly handwritten) on documents should be equally accessible to both humans and computer reading devices. The characters must be capable of signalling their differences when scanned by the automatic reader but this must not be achieved at the expense of illegibility from the human point of view. A problem is that somehow the human brain can make sense of general attributes of shape which may completely baffle equipment.

Two of the approaches to solving this problem which have been successful are the use of magnetic ink character recognition (MICR) and *optical character recognition* (OCR).

MICR has been used with great success in banking where codes are printed along the bottom edge of each cheque. Amounts and transaction codes added to completed cheques act as the basis for subsequent processing. Equipment is available for sorting account items and for reading, either on-line to a visible record computer or for conversion to magnetic tape for subsequent computer input.

OCR is, perhaps, more exciting than MICR in that, with advanced systems, pages of characters produced on normal typewriters may be scanned at very high speeds.

Simple, low-cost equipment will read just one line of characters printed a specified distance from the lower edge of a document of stated maximum size, say about $4 \times 7\frac{1}{2}$ in. The batches of documents are inserted, upright on edge, into a hopper from which they are automatically fed into the reader. Rejects are automatically separated without stopping the process. A major field of application for such methods is in connection with 'turn-around' documents where a portion of an original bill is used to update a master file.

Document readers of the optical type vary from those that will read data printed or inserted in a special code,

through those that will read one special type fount with, at the top of the scale, almost complete versatility, with a number of founts. Sorting facilities are available on some systems. Generally the data, after optical scanning, is encoded on to magnetic tape for use as computer input, though on-line facilities are available.

As far as the special code devices are concerned, the information may be pre-encoded on the document at the time it is created. Such encoding may take the form of a series of columns (as with punched cards) where 1 is printed instead of punching a hole, or a binary form of encoding may be used, which is suited to imprinting from a charge card. Manual marking of numbers that have been pre-printed in appropriate columns of the document may also be used, an application very reminiscent of mark sensing of punched cards. Such techniques are not optical character recognition but really should be classed as *mark reading*. With some equipment the same document transport can be used with either mark readers or OCR readers, or with both.

Page reading OCR systems are now available and the most versatile operate on a multi-fount basis. Less adaptable, though cheaper apparatus, gives a choice from a number of founts, while simple single fount readers may require use of a highly-stylized fount that may not be very compatible for human reading. Page readers may be capable of handling both upper and lower case characters (which is very desirable to give human reading compatibility).

All characters may be read, or some may be printed in a non-read or drop-out colour (say red) so that they are ignored. This is particularly useful where there is high density of information. Systems are available for extraction of information from documents by reference to coordinates (as on a graph) that enable parts of the page to be referenced. Selecting specified fields will generally be by a program in the control computer.

A percentage of *reject characters* will occur and of *substitutions*. The former are characters not recognized by the machine, generally because of faulty printing. The Scan-Data system provides for these to be corrected during reading. The letters surrounding the doubtful character are flashed on the monitor with the particular character highlighted. The operator strikes the correct character on the typewriter keyboard and this is accepted in place of the doubtful one.

Substitutions involve replacing a character by an incorrect one and are *read errors*. Control Data Corporation's SSOCR system has been said to have a reject rate of less than one for every 10,000 characters and a substitution rate of less than one for every 50,000 characters. This is a large-scale system operating at 14,000 characters per second.

Specialized OCR equipment is available such as *journal-roll readers*, which take rolls from cash registers and adding machines.

The tendency in OCR is to reduce the degree of standardization required in paper quality, thickness and size and also in the printing of the characters on the documents and their registration. Computer output from a line-printer can be read by some equipment.

Fig. 7. A computer-output-on-microfilm sequence showing three forms of retrieval.

By-product encoding

The generation of output in a form suited to computer input, say paper tape, at the same time as a main document is being typed or updated is now frequently used. It will be considered in relation to visible record computers in the final article.

COM (Computer Output on Microfilm) is a recent development as far as business applications in Britain are concerned. The use of microfilm and microfiche for effecting a drastic reduction in storage space occupied by normal documents is well known. Now microfilm print units may be on-line to the computer or may operate off-line from magnetic tape produced by the computer (see Fig. 7). Because of the high cost of equipment, bureau services have appeared. At the moment, COM is only for computer output. The retrieval of information, once recorded on film, is by human reading, either with a roll film or microfiche viewer, which gives an enlarged projected image, or of a hardcopy enlargement produced on a printer.

(To be concluded.)

Taxation Cases

Philippi v. CIR

In the Court of Appeal – May 17th, 1971

(Before THE MASTER OF THE ROLLS, Lord DENNING, Lord Justice SALMON and Lord Justice KARMINSKI)

Surtax – Transfer of assets abroad – Taxpayer ordinarily resident in UK – Irish settlement by taxpayer's father – Shares in Irish company – For benefit of son – Son resident in UK – Whether father's transactions were to avoid liability to taxation – Residence – Domicile – Income Tax Act 1952, section 412, Schedule 18 – Relief in respect of Double Taxation (Irish Free State) Declaration 1923 (No. 406).

The taxpayer was born in 1938 in the United Kingdom, where his parents then lived; but in 1947 they left this country and went to live in the Republic of Ireland. In the same year the taxpayer went as a boarder to a school in England, and then to a public school and afterwards to Sandhurst and into the Army. It was not disputed that in the years of assessment, 1960–61 to 1963–64 the taxpayer was ordinarily resident in the United Kingdom.

In July 1950 the taxpayer's father bought the shares in a company incorporated in the Republic of Ireland; and by a further issue of shares to him he held in September 1951 all the 5,000 shares in the Irish company. In the early part of 1951 the father had a serious heart attack. On September 26th, 1951, he transferred his house in Ireland to the company. Two days later he executed a deed of settlement reciting that he intended to reside abroad, and was desirous of making provision for his son. He settled 4,998 of the 5,000 shares, and also other shares including some in English companies, for the income to be accumulated during the son's minority, and then to transfer the trust fund and accumulations to the taxpayer on April 6th, following his attainment of 21 years. The settlement included power to the trustees during the taxpayer's minority to apply income for his benefit. The trustees were the father's Irish solicitor and the taxpayer's mother, both of whom were resident in the Republic of Ireland. The settlement was to be construed in accordance with laws for the time being in force there. In 1952–53 the father transferred to the Irish company English investments valued at £28,813. This case was concerned with those investments and with the effect of the 1951 settlement upon them. In 1952 the father went to live in Switzerland. The taxpayer attained 21 in August 1959.

It was contended for the taxpayer that the making of the 1951 settlement, and the transfer of the £28,813 of English investments to the Irish company in 1952–53, were not effected for the purpose of avoiding United Kingdom taxation; and that therefore the exception in section 412 (3) of the Income Tax Act 1952 was satisfied. It was contended for the Revenue that the father was ordinarily resident in Switzerland after 1952; that his domicile was British throughout the relevant period; and that the taxpayer had not discharged the burden of proving that his father had not had, as one of his objects, to avoid United Kingdom taxation (estate duty as well as income tax), when he made the settlement of 1951 and transferred the securities of 1952–53. The Special Commissioners decided in favour of the Revenue.

Held (affirming the judgment of Mr Justice Ungoed-Thomas): the Special Commissioners' decision was correct.

Guiana Industrial and Commercial Investments Ltd v. CIR

In the Privy Council – May 3rd, 1971

(Before Lord MORRIS OF BORTH-Y-GEST, Lord GUEST and Lord DONOVAN)

Income tax – Valuation of property – On last day of preceding year – Or other date in that year – Assessment next year – No assessment until assessment year has begun – Whether valuation amount a debt prior to assessment year – Property Tax and Gift Tax Ordinance 1962, sections 3, 7, 8.

By section 7 of the Property Tax and Gift Tax Ordinance 1962 property tax is levied in Guyana 'in respect of the net property, on the corresponding valuation date, of every person'. Properties are to be valued on the last day of the preceding year (calendar) or on an agreed date in that preceding year. The company made up its accounts to November 30th, 1961, and the assessment for the year of assessment in question (the calendar year 1962) was made on the basis of those accounts.

It was contended for the company that on November 30th, 1961, there was a debt owing by it for income tax; and that that debt was a proper deduction in computing 'net property' for the purposes of the tax.

Held: the tax in question was not payable until 30 days after the making of the assessment, which would have to be in 1962; and, therefore, there was no debt in the preceding year.

MANAGEMENT INFORMATION

Organizing Management for a Changing Environment

MANAGEMENT is today faced with rapid change on all sides. Traditionally it has earned profit for the owners through efficient control of essentially repetitive activities. Increasingly, this is no longer true.

Technology, markets, people's attitudes, etc., are all changing at an accelerating pace and the management which is geared solely to effective operating control of an existing business is less likely to be a successful one in the future. Whilst this ability to control effectively will continue to be one of the principal criteria for a successful business, management must also acquire the skills to identify the long-term opportunities that can emerge from this process of change, and devise a management structure for their organizations which will enable those opportunities to be seized and exploited.

In an article entitled 'Strategic management: a new managerial concept for an era of rapid change' which appeared in the April 1971 issue of *Long Range Planning*, William P. Frankenhoff and Charles H. Granger argue that the differences between operating management and strategic management should be recognized more formally in the business organization. Without this, there will continue to be the lack of clarity between functions which still characterizes most managements.

New organization structure

The authors set out four major elements in their argument:

(*a*) *The rapidity of change.* This has increased significantly in the last decade, leaving many traditional types of activity behind while at the same time generating new ones. Management's ability to respond to such changes is the ultimate determinant of its ability to survive.

(*b*) *Shareholder attitudes.* The growth of institutional investors and the increasing sophistication of private investors mean that the general body of investors are more sensitive to long-term inflationary trends and the need to protect real values. The large, old, below-average-growth company (often a 'blue chip') shows declining values relative to other investments. Frequently it has become institutionalized and wedded to outmoded ideas.

(*c*) *Grow or perish.* A company which does not adapt to change and achieve the expectations of investors will either quietly die or, if it is one of the type of company mentioned in (*b*), will be the target of a take-over by more aggressive entrepreneurial managements closely attuned to the investors' need of a steady growth in earnings per share.

(*d*) *Two types of management.* The response to this need for dynamism should be the recognition that two types of management are required within the company if the challenge of change is to be squarely faced. The functions of operating management are unchanged, but extraneous to this should be a strategic management whose objective is the achievement of at least average growth in earnings per share. The functions of strategic management are keeping the company's business mix healthy by 'positioning' the company – that is by entering new areas of opportunity, and by establishing corporate policy on force feeding the 'pullers' and correcting the 'draggers' in the present business mix.

Strategic management

The growth in earnings per share that is required is the ultimate responsibility of top management and will be contributed to by both operating and strategic management, with the latter probably playing the preponderant role. This it will achieve by the continuous positioning of the company in the best product mix. Strategic management is therefore seen as having three specific tasks:

(*a*) To see that the product mix provides the optimum return on investment and stability commensurate with the company's strengths and weaknesses, through new product selection. For existing products the identification of areas of high return so that research effort, capital resources, etc., can be deployed to win the maximum benefit, and of low return areas for correction or withdrawal of resources.

(*b*) To maximize share values through establishing a quality of earnings providing attractive future growth and ensuring that this earnings pattern is converted into investor assessment of the price/earnings ratio for the company's shares.

(*c*) To ensure that management skills are not excessively diluted by trying to do too much at once. It is better to do a few things well than many badly. The range of activities chosen for the future should be within the capacity of management, either existing or potential, and will of course be selected on a basis of mutual compatibility.

Strategic management continuously evaluates change and its opportunities in terms of established criteria. Rather than specific definitions of products or services, these will comprise a statement of corporate purpose and product rationale; the growth forces upon which to build; the growth markets to serve; and the growth technologies from which to benefit.

Strategic management in the organization

In the past, and indeed at the present time, management has been heavily operations-orientated, with the relative places of each in the organization something like that shown in Figure 1. Once the business was launched upon a course of action, operational management made nearly all the

Figure 1
STATIC ENVIRONMENT

decisions and even the occasional strategic decision was made by operational managers.

The advent of corporate or long-range planning groups in a business recognizes that corporate development is a specialized function. In many cases, separate departments have been set up, often with direct access to top management. Often, however, such departments have functioned in an advisory or staff role manned by staff with no operating responsibilities, as shown in Figure 2. While operating management has participated in strategic planning, it has been rare for strategic management to have any direct or major responsibility for producing an increased level of earnings per share.

The theme of the authors, that successful corporate development is the result of separating the functions and responsibilities of operating and strategic management, is reflected in the organization structure shown in Figure 3. The functions of the chief executive are to organize and staff the subordinate positions; to ensure that individual actions conform to long-term objectives and policies; and to act as a link with investors and external agencies. Subordinate levels of management would be allocated to the function that accords the closest with their talents and interests.

In the organization structure outlined, strategic management is no longer performing a purely staff function but is charged with the direct responsibility for producing increased earnings per share. At the same time there is a decentralization of activities subject to the usual financial and other constraints, with top management concerned with stimulating drive on the part of the group and divisional operating heads, including strategic development. The

Figure 2
SLOW CHANGE IN ENVIRONMENT

Figure 3
RAPID CHANGE IN ENVIRONMENT

standing of the head of the strategic planning group in the organization should reflect this changed status of direct responsibility.

Conclusions

There are many rapidly-growing social and economic factors which will have a major impact on companies over the next decade and beyond. Unless the responsibility for 'deciding the basic mission of the company, the objectives which it seeks to achieve, and the major strategies and policies governing the use of resources at its disposal . . .' is clearly defined, then the company may well fail to respond adequately to those changes with adverse long-term effects on the return to the owners.

Books

The Rise of the Accounting Profession Volume II, 1937–1969

by JOHN L. CAREY.

American Institute of Certified Public Accountants, $10.

The first volume of this work was reviewed in *The Accountant* of July 2nd, 1970. In this second volume, Mr Carey pursues the history of the American profession from the time of the merger of the American Institute of Accountants and the American Society of Certified Public Accountants in 1936 down to 1969; appropriately enough, the volume is sub-titled 'To Responsibility and Authority'.

During this period, the American profession encountered a number of vicissitudes for which no exact parallel exists in the United Kingdom. The formal written constitution of the United States, and the separation of powers between Federal and State legislatures, proved a serious embarrassment in many ways. Legislators preferred not to take sides in controversies amongst their constituents, and the elevation of CPA standards was actively opposed on many occasions by organized groups of unqualified practitioners seeking legislation which would license them as 'public accountants'.

Restrictive legislation introduced in the State of Oklahoma in 1917, and Tennessee in 1925, was subsequently held to be 'unconstitutional' on such grounds as that it deprived non-certified accountants of their right to earn a living, that it infringed the right of private contract, and that the resulting monopoly for CPAs was not justified by the public welfare. The Institute itself was opposed to regulatory legislation of the 'two-class' type which protected the title of 'certified public accountant' but also allowed other 'public accountants' to practise; but its position in this was at variance with several of the state societies of CPAs which were embroiled in battles with their local legislatures. The absence of a nationwide policy led to local conflicts which often degenerated into power struggles, leading to compromises without logical justification, and a bad precedent in one State could be used as a weapon against CPAs in other States.

Accountants also found themselves in conflict with the American Bar Association in several States, on the grounds that tax practice was tantamount to the unlicensed practice of law; culminating in 1954 in the notorious *Agran* case in which the Los Angeles Superior Court ruled that a CPA who had negotiated a tax settlement for his client was engaged in unauthorized practice of law and could not therefore recover his fees.

The accountant in this case was enrolled to practise before the United States Treasury Department, and the net effect of the decision appeared to be that it was unlawful in Los Angeles county to perform services which the Treasury Department had specifically authorized. It was not until 1965, and then only after extensive discussions in a spirit of friendly co-operation with the legal profession, that the authority of CPAs in the tax field was firmly established and confirmed specifically in a Federal statute.

The years covered by this volume were a period packed with action, crisis and achievement, throughout which Mr Carey, as the Institute's chief executive officer, took part in many of the developments which he describes. He finds in conclusion that 'CPAs are possessed of amazing vitality, an extraordinary capacity for self-criticism, an ability to act effectively on many broad fronts and a determination to render constructive service to the society of which they are a part'.

Company Pension Schemes

by MICHAEL PILCH and VICTOR WOOD.

Gower Press, £4·25.

According to the authors the aim of this slim volume is to provide the background to the subject needed by directors in choosing an expert to evaluate the various factors involved in establishing pension schemes.

The background turns out to be a survey of the effect of tax and national insurance on company pension schemes, the forms of benefit such schemes provide for various classes of employee, the determination and investment of the necessary contributions, and the administration of the schemes. The authors deal with some matters in fair depth; in regard to others they sometimes do little more than pose questions to the reader. Whether this background is necessary, or even desirable at the price, for anyone who *ex hypothesi* is about to choose an expert adviser may be doubted.

In their own release, the publishers have directed attention to only one chapter in which the authors give their opinion of the various classes of adviser from which an employer may seek advice without, however, defining the nature of the advice which can usefully be sought from a particular class of adviser, or how an employer can ascertain which practitioners in each class are specially equipped to give that advice.

There are undoubted difficulties in obtaining satisfactory

advice on some aspects of pension schemes. This is perhaps due principally to unwillingness in some professions to recognize the desirability of specialization and to failure of specialist advisers consulted on different aspects of the same problem to make effective arrangements to collaborate. It is in these directions that improvement might most usefully be sought, rather than in seeking to establish a form of expert who, in attempting to be a master of all trades, is likely only to end up as an indifferent jack of most of them. Directors will, in any event, generally prefer to get advice from their own accountants on such aspects of pension schemes as bear most intimately on the finances of their companies.

The timing of publication on such a subject must always pose difficulties. It is unfortunate that changes in the conditions for Inland Revenue approval made the present book out of date in some important respects within a week of its appearance.

Cost Benefit Analysis in the Public Sector

The Institute of Municipal Treasurers and Accountants.

£2·25.

The outcome of the Roskill Commission's deliberations has highlighted both the applications and limitations of cost benefit analysis. This collection of six papers is particularly welcome, because even now there are still relatively few illustrations available to the public of the application of CBA.

The papers cover a wide range of topics, from the evaluation of community preferences, to resource cost in public investment appraisal. Many students of CBA will find particular interest in a detailed piece of research on the benefits to be derived from the construction of a major recreation facility. On a similar plane of practicality is a shorter paper dealing with the benefits of a traffic management scheme.

Effective Boardroom Management

by HUGH PARKER and others.

British Institute of Management, £1·50.

'Although much attention has been focused during the last few years on improving managerial skills in this country, less attention has been given to the specific role of the board of directors', this view is expressed by Sir Basil Smallpeice, K.C.V.O., F.C.A., J.DIP.M.A., in the preface to *Effective Boardroom Management*.

Hugh Parker, managing director of McKinsey (UK) and one of the four contributors to the publication, in a chapter on 'Basic role and function of boards', suggests five specific ways in which boards might achieve greater professional effectiveness. These are the establishment of corporate objectives and strategies; defining corporate policies; deciding and maintaining the organizational structure; ensuring effective planning, information and control; and the making of major decisions that the board either legally cannot, or does not wish to, delegate.

The chapters of the book are, in fact, reprints of papers given at a one-day forum some months ago and attended by nearly 300 chairmen, directors and senior executives. It is hardly surprising, since all the principal speakers were from an American-orientated company, that there was a most decided transatlantic bias; nevertheless, one speaker acknowledged that even if American management know-how was imported in the United Kingdom, 'you are bringing back home British concepts and principles of governing that are deeply imbedded in our approach to managing'.

Various diagrams complete a readable commentary spotlighting boardroom practice. These deal with topics ranging from the growth and complexity of UK industrial companies to assessing future manpower resources.

Family Management: A Householder's Guide

edited by ERIC GRIMSHAW.

Faber, £1·80.

This compendium of information has been compiled by a number of contributors on matters as diverse as the law relating to liability for children's actions and to spouses, to savings and investments including buying a house. It deals also with the health services, consumer problems, and even with arranging a holiday.

Each author concentrates on principles and draws attention to the smaller points, which tend to be overlooked and yet can prove so expensive. In short, this is a useful book for any person who prides himself on being a prudent, sensible householder and family man. Even those who believe themselves to be well-informed on the wide range of topics covered here will doubtless find the book worth reading. It could well find a place on the shelf of a newly-wed couple; it would amply repay its cost.

RECENT PUBLICATIONS

COMPANIES LAW AND PRACTICE, first (cumulative) supplement to fourth edition by S. W. Magnus, Q.C., and M. Estrin, F.C.A. x+54 pp. 9½×6. Butterworth, paperback £1; complete work £8·50.

THE PRINCIPLES OF AUDITING, by the late F. R. M. de Paul a C.B.E., F.C.A., 14th edition by F. Clive de Paula, C.B.E., T.D., F.C.A., F.C.W.A., J.DIP.M.A. xx+517 pp. 8½×5½. Pitman, paperback £1·50.

THE REVOLUTION IN BRITISH MANAGEMENT EDUCATION, by Mildred Wheatcroft. xiv+158 pp. 8½×5½. Pitman, £1·80.

THE LAW RELATING TO MONEYLENDERS, by Ian G. C. Stratton and Ian S. Blackshaw. xx+107 pp. 8½×5½. Butterworths, £2·75.

ANALYSIS AND TERMINOLOGY OF FINANCIAL STATEMENT ITEMS FOR HIGHWAY-HEAVY CONTRACTORS, by Felix P. Kollaritsch. ix+208 pp. 9×6. College of Administrative Science, The Ohio State University, $7.

COMPANY LAW, by Kenneth Smith and Denis J. Keenan. xi+390 pp. 8½×5½. Pitman, paperback £1·25.

THE IMPACT OF COMPUTERS ON ORGANIZATIONS, by Thomas L. Whisler. xiv+188 pp. 8½×5½. Praeger, £4·50.

ESTIMATING MANUFACTURING COSTS, by Richard Clugston. xi×201 pp. 9½×6. Gower Press, £3·50.

ECONOMICS OF INDUSTRIAL ORGANIZATION, fifth edition by A. Beacham and N. J. Cunningham. xi+300 pp. 8½×5½. Pitman £2·10; paperback £1·25.

SUCCESSFUL SALES MANAGEMENT, Dunn & Bradstreet Business Library. 160 pp. 9×5½. Foulsham & Co, £1·75.

SUCCESSFUL BUSINESS THINKING, Dunn & Bradstreet Business Library. 128 pp. 9×5½. Foulsham & Co, £1·50.

MANAGING YOUR MANPOWER, Dunn & Bradstreet Business Library. 176 pp. 9×5½. Foulsham & Co, £1·75.

These books may be obtained from, or through, Gee & Co (Publishers) Ltd, The City Library, 151 Strand, London WC2R 1JJ.

The Accounting World

Topics of Professional Interest from Other Countries

NEW ZEALAND

Education by Degrees

MEMBERS of the New Zealand Society of Accountants will vote this month on proposals for an all-graduate entry to the profession. If these proposals are accepted, candidates for membership of the New Zealand Society will be required to complete an approved degree course before attempting the Society's final examination, and must also complete not less than three years' approved practical experience.

A similar proposal in 1967 was endorsed by a narrow majority of those members voting – 2,573 against 2,464 – on which basis the Council of the Society did not feel justified in proceeding further at that time. In commending the present proposals to the membership, the Council points out that university education has long been recognized by other professions as a prerequisite for admission; the public generally regards university graduation as the necessary education level for entry to a profession, and if the New Zealand accountant is to be capable of meeting the demands of his constantly changing role, he should be a university graduate with appropriate professional training.

Accountancy is already well established in the New Zealand universities, and the proposed degree requirement would result in a concentration of teaching resources which in turn would provide a basis for better study and research. Furthermore, the profession would share the benefit of the substantial educational expenditure at the universities.

The new proposals, if accepted, would be applied to all candidates who commenced their studies in 1974 or who had not passed or been credited with any subject of the Society's professional examination held before the end of 1973.

LUXEMBOURG

Company Mergers

FOR reasons which are partly structural, partly legislative and partly due to lack of experience, cross-frontier mergers in Europe between companies in the EEC countries have not been significant. It has been estimated by the EEC Commission that, between 1961 and 1969, over 3,000 mergers of all kinds took place between companies in the Community, but only 257 involved companies situated in different member States.

During the same period, some 7,000 mergers were completed in the United Kingdom alone, and more than six times that number in the United States. In comparing British – let alone American – experience of mergers with those of Western Europe, it becomes clear that the EEC countries have a long way to go, and that in the business of mergers and acquisitions they are under-developed countries.

These figures were given recently in an address by Mr Nicholas Stacey, managing director of Chesham Amalgamations & Investments Ltd, at a two-day European management seminar organized in Kirchberg, Luxembourg, by Messrs Hoogewerf & Co, Chartered Accountants. Other subjects covered, in addition to the comparative British and European experience of amalgamations and mergers, were visible record computers, management accounting, tax havens and corporate taxation.

It would appear that the complexity and variety of taxes imposed on Luxembourg companies rival those of the United Kingdom. In fact the rates of Luxembourg tax rival the highest in Europe; though, as the speaker remarked, the rate of tax is not the only thing to be taken into account. It is what one can set off against profits for tax purposes which makes a tremendous difference.

SOUTH AFRICA

Auditors' Independence

WHILST recognizing that it is impossible to specify all the relationships between an auditor and his client which might affect the independence of the auditor, the National Council of Chartered Accountants (SA) has issued a statement dealing with certain situations in which that independence might be, or might seem to be, compromised. Some of these relationships could conceivably be regulated as a matter of professional conduct, but there are other situations of potentially equal, if not greater, importance in regard to which it would not be possible to legislate adequately.

Examples of the first category include substantial shareholdings by an auditor or members of his immediate family in client companies, or substantial indebtedness by the auditor or his family to the client. In particular, the use by an auditor of information not generally available to shareholders for the purpose of dealing in the shares of a client company would be regarded as 'quite reprehensible'. Indebtedness arising from normal trading transactions on terms similar to those enjoyed by other customers would not be regarded as inimical to independence, but it is recommended that such facilities as excessive credit or preferential treatment in times of short supply 'should at least be reasons for an auditor to examine his conscience in regard to his independence'.

Examples of client relationships not susceptible to formal regulation include a practice consisting solely or principally of appointments from one client, and the degree of friendship between the auditor and a client's management or principal shareholders.

All chartered accountants in public practice are reminded of their obligation, as a rule of professional conduct, to 'endeavour to enhance the reputation and dignity of the

profession'. Failure to observe a proper degree of professional independence may be regarded as a breach of this rule.

UNITED STATES

Post-Qualifying Education

THE Council of the American Institute of Certified Public Accountants is seriously considering a resolution which would make formal post-qualification study a requirement for the renewal of a CPA's licence to practise. State legislation to this effect is already in force in Iowa, and the AICPA resolution recommends that a continuing education requirement be made uniform in all States.

In the words of the AICPA Council resolution, 'the explosion of knowledge makes it essential that certified public accountants continue to develop their competence'. Guide lines proposed by the Institute envisage a formal programme of learning, contributing directly to the professional competence of the individual, and extending over a period of at least 120 hours during the three years preceding a CPA's re-registration.

If this principle is accepted, accounting will become the first profession in America whose members will be compulsorily required to carry on professional studies throughout their working lives.

Current Law

Hire-purchase: Notice of Default

SECTION 25 (3) of the Hire Purchase Act 1965 stipulates that an owner who is seeking to repossess goods for non-payment of instalments must first serve upon the purchaser a notice, specifying the amounts due but unpaid and the provision(s) of the agreement on which the owner relies in order to recover possession, and requiring the amount to be paid within a period of not less than seven days beginning with the date of service of the notice. If such a notice is not given, or is defective, the retaking is also unlawful.

E entered into an agreement for the hire-purchase of a motor-car, and paid the down payment of £115. He failed, however, to pay either the first or the second instalment, of £10 11*s* 9*d* each. Shortly after the second instalment became due, the finance company sent E a document described as a 'notice of default', specifying the amount due (correctly) as £21 3*s* 6*d* and requiring payment 'within the course of the next nine days after the date on which you would normally be expected to receive this letter'. The notice further stated that, in default of payment, the company would assume that E had terminated the agreement by repudiation, and would take appropriate steps in that event to enforce their rights under the agreement.

Within the stipulated period of nine days, E paid the first but not the second instalment. A few days later, and without any further notice to E, the finance company took possession of the car. E then went to the company's premises, where he left an envelope containing the amount of the second instalment, retook the car himself and took it back to his home; the finance company thereafter seized the car from his home and sold it. E brought proceedings against the company to recover the amount which he had paid them.

The Court of Appeal unanimously held that the purported 'notice of default' was bad, and that the retaking of the car by the company was therefore unlawful. The notice was insufficiently precise in referring to 'the next nine days after the date on which you would normally be expected to receive this letter', which did not enable the final date for payment to be precisely established, and it did not identify the particular provision(s) of the agreement which was relied on. Further, in the view of Lord Denning, MR, the non-payment of one or two instalments did not amount to repudiation, and the owners were not entitled to assume repudiation, for their own purposes, against E. E was accordingly entitled to recover the amount paid.

Eshun v. Moorgate Mercantile Co Ltd ([1971] 2 All ER 402).

Company or Quasi-partnership

THERE appears to be no precise test for determining when a company is a quasi-partnership, though one indication is if the members intend to participate in the company's business in just the same way as if they had been partners.

Three persons were the directors and sole shareholders of a company incorporated in 1966, G being the sole full-time working director. In 1968, G was removed from the board by resolution under section 184 of the Companies Act 1948, after his co-directors suspected him of pilfering. G was also prosecuted under the Larceny Act 1916, on evidence supplied by his co-directors, but was acquitted.

G now petitioned for the company to be wound up under section 222 (*f*), on the ground that he had been falsely accused of stealing, and that the members of the company as quasi-partners had lost mutual confidence in one another.

The Court (Brightman, J) held that the members of a quasi-partnership company owed to one another a duty of good faith which went far beyond the duties of the members of an ordinary limited company. In such circumstances, the removal of a director otherwise than in good faith would not only be void but would also justify the winding-up of the company. Whether or not the intention to participate as partners in the company's business existed was a question of fact.

In the present case, since G had been the only full-time working director, the judge concluded that the company was not a quasi-partnership. The other two members and directors had not originally intended to engage in the day-to-day management of the business or to draw remuneration from it other than dividends. Despite the breakdown of confidence between the three parties, the drastic solution of a winding-up was not necessarily justified, and G's remedies, if any, lay elsewhere than in liquidation.

Re Leadenhall General Hardware Stores Ltd (115 SJ 202).

FINANCE AND COMMERCE

Tarmac Resurfacing Breaks No New Ground

THE form of the Tarmac group accounts and supporting statistics has been revised this year and the boardroom hope, expressed in the chairman's statement, is that 'shareholders will find the new layout easier to read and also more informative'.

The new layout in fact scores on both counts. It shows that figures do not have to be presented in any arty-crafty manner, put back to front or generally played about with, in order to be easily read and more informative.

The Tarmac layout is an improvement on the former style which, it has to be admitted, was not particularly brilliant. The new style is plain and straightforward, although no more so than dozens of other companies' accounts.

Everything is relative, and Tarmac shareholders will undoubtedly find the new layout easier to read and more informative; but if they are shareholders in a number of other companies, they will in all probability appreciate that while Tarmac has brought its accounts layout up to generally accepted standards, it has not necessarily broken fresh ground or achieved a breakthrough in company reporting.

At the same time, it must be acknowledged that Tarmac has done the right thing well and without fuss, and has certainly succeeded in presenting a much 'cleaner' report.

Decline of Derby

This year's Tarmac report really marks the end of the identification of Derbyshire Stone company, with which Tarmac merged in 1968. Tarmac was top dog in the merger and the merged holding company was called Tarmac Derby Ltd. Last January, 'Derby' was officially dropped from the company's title which has now reverted plainly to Tarmac Ltd. Sir Charles Burman, chairman of the combined group and originally chairman of Tarmac, is retiring and so is Sir Edward Senior, deputy chairman, who was chairman of Derbyshire Stone.

Also resigning 'to facilitate board dispositions' are Mr J. M. Clay of Hambros Bank, Mr D. G. Thomas of Robert Fleming & Co, and Mr S. W. Wiltshire of J. Henry Schroder Wagg who are thanked for assistance given 'over the formative period of the merger'. All three have agreed to be available for consultation in the future. Mr G. D. Paris, F.C.A., the group financial controller who has been with Tarmac since 1964, joined the group board as financial director last March.

The position of chairman and chief executive goes to Mr R. G. Martin, who has been with the group since 1945 and at the time of the report was managing director. Mr Edwin Wright, a non-executive member of the Tarmac board since 1953, becomes deputy chairman.

To complete the disappearance of Derbyshire Stone from the group as a separate entity, it is worth recording that in the list of over 50 subsidiaries and nearly 20 associated companies the only recognizable connection is through Derbyshire Stone Sales Ltd.

Lower tax charge

Inevitably the merger was followed by a very considerable reorganization and rationalization, and it is only now that benefits are beginning to show through. Sir Charles Burman, for example, comments that 'the highlight of the 1970 results is a very welcome 25 per cent increase in earnings per share'. There were three reasons: an improvement in the results of the group as it was at the beginning of 1970, the contribution to earnings of companies which joined the group in the year and a reduction in the tax charge from 51 per cent to 43·6 per cent of pre-tax profits.

The lower tax charge arises from a further reduction in losses of overseas companies, as well as from the more obvious cause of reduced corporation tax rates. Note 2 to the accounts shows clearly the contribution made to profits by subsidiaries acquired during the year. The pre-tax profit improvement in the original group, including associated companies, was of the order of 10·5 per cent, with the roadstone and construction divisions particularly contributing.

The Tarmac group is organized in six divisions: roadstone, construction, bitumen products, engineering, distributive services and other companies; the analysis of group turnover and pre-tax profits in terms of those divisions and also by geographical areas is part of the information provided in the accounts and is included in our reprint. In the case of 'other companies' the company's small share in the Phillips group North Sea gas consortium contributed to the increased profits.

Hope deferred

Since the Tarmac-Derby merger in 1968, group turnover has risen from £109·54 million to the 1970 level of £143·3 million, pre-tax profits from £5·52 million to £7·61 million and attributable profit from £2·39 million to £4·04 million. But Tarmac alone before the merger earned attributable profits of £2·22 million on turnover of £60·12 million, which suggests that merger benefits have been slow in coming through. In 1967, Tarmac's own capital employed was £22·48 million, the figure rising to £44·24 million as a result of the merger in 1968 and standing at £48·27 million now.

Net earnings per share in the first year of the merger were 6·4p, whereas Tarmac earned 11·9p a share on its own in 1967. In 1969 earnings improved to 8·4p and last year to 10·5p, so that earnings are gradually recovering their

former pitch. The boardroom view is that the overall improved trend in profits and earnings will continue in 1971, although it would be stretching the chairman's comments to suggest that there was a vast degree of confidence in that forecast.

The roadstone division – as the result of a mild winter – has begun the year well. Some loss-making contracts overseas have been worked off in other main divisions. Against that, the engineering division concerned with special steels may experience difficulties.

Geo. G. Sandeman

DEVALUATION benefits stemming from identifiable additional profits have at last come to an end in the Geo. G. Sandeman port and sherry group. The effect on the group's current year results and subsequent years will not be material.

Sandeman's stocks on hand in Portugal are included in the accounts at the rates of exchange relevant to the dates of acquisition. Due to the devaluation of sterling in November 1967 and the consequent price increases made shortly afterwards, additional profits have accrued as the pre-devaluation stocks have been sold.

Last year these increased the group's net profits by around £25,000 – £35,000 in 1969 and £47,000 in 1968. These devaluation benefits, however, are not the principal reason for the £75,000 rise in after-tax profits at Sandeman to £530,000 last year.

The tax charge fell by this amount following the reduction on the UK corporation tax rate and the benefit arising from the moving of two group companies' residence. These benefits amounted to about £42,000 last year but could be somewhat lower for subsequent years.

Sandeman, of course, take the opportunity to spell out in their annual report the leading brands available through the group's organization. Wisely, since so many port-lovers are readers of the report, the available vintage ports are detailed for the first time.

Pleasurama

THINGS have been happening so fast at Pleasurama that it is difficult to see the roulette wheels for the dolphins. And, come to that, the geographical spread is almost as great with new developments in as far-away places as Warragamba, near Sydney, Majorca, and Kirkcaldy.

There is no doubt, though, that the newly-formed casino division is to be the centre of financial attraction away from the limelight hogged by dolphins on Oxford Street. Pleasurama's 51 per cent stake in Pleasurama Casinos last autumn has since been stepped up to 70 per cent. The balance is held by the division's managing director, Mr Michael Bassett, F.C.A., who, according to Pleasurama's chairman, Sir Harmer Nicholls, M.P., is 'a recognized authority on gaming in this country'.

Whether Mr Bassett's 'authority' comes from drawing up the accounts of gaming establishments or whether he can recognize an unbeatable roulette system when he sees one is not stated. Whichever is the case, Mr Bassett is likely to become an authority on travel to boot – Pleasurama's casinos are sited in such locations as the Isle of Wight, Newcastle, London, Wolverhampton and Brighton.

TARMAC LIMITED

ANALYSIS OF GROUP RESULTS

	1970		1969	
	Turnover	Profit before Tax	Turnover	Profit before Tax
By divisions	£'000	£'000	£'000	£'000
Roadstone	48,743	4,164	41,234	3,470
Construction	51,463	1,628	41,293	1,142
Bitumen products	29,241	884	21,530	931
Engineering	10,797	782	6,799	641
Distributive services	2,843	85	2,362	100
Other companies	211	66	148	(20)
Total	143,298	7,609	113,366	6,264

	1970		1969	
	Turnover	Profit before Tax	Turnover	Profit before Tax
By geographical areas	£'000	£'000	£'000	£'000
United Kingdom	127,591	7,922	100,298	7,152
Western Europe	10,522	119	8,767	(333)
Africa	3,889	(437)	3,142	(627)
Australia	614	(53)	540	6
New Zealand	682	58	619	66
Total	143,298	7,609	113,366	6,264

TARMAC LIMITED

GROUP PROFIT AND LOSS ACCOUNT for the year ended 31st December 1970

	Notes	1970 £'000	1970 £'000	1969 £'000	1969 £'000
Turnover	1		143,298		*113,366*
Profit before taxation	2		7,609		*6,264*
Taxation	3		3,317		*3,184*
Profit after taxation			4,292		*3,080*
Interest of outside shareholders and pre-acquisition profits	4		252		*11*
Group profit attributable to Tarmac Limited	5		4,040		*3,091*
Retained profits at 1st January	6		11,013		*10,608*
			15,053		*13,699*
Dividends					
Preference		19		*19*	
Ordinary interim — 6½% paid		1,238		*1,196*	
final — 10¾% proposed		2,048		*1,977*	
			3,305		*3,192*
Retained profits at 31st December	7		11,748		*10,507*

The notes on pages [853 to 855] form part of these accounts

GROUP BALANCE SHEET at 31st December 1970

	Notes	1970 £'000	1970 £'000	1969 £'000	1969 £'000
Assets employed					
Fixed assets	8		29,171		*27,103*
Goodwill	9		3,414		—
Associated companies	11		732		*1,080*
Net current assets					
Stocks	12	11,044		*9,191*	
Debtors and work in progress	13	40,546		*33,882*	
Quoted investments	14	104		—	
Cash	15	3,112		*7,175*	
		54,806		*50,248*	
Creditors		28,672		*23,876*	
Bank overdrafts	16	5,448		*5,966*	
Taxation		3,680		*3,657*	
Dividends	17	2,057		*1,986*	
		39,857	14,949	*35,485*	*14,763*
			48,266		*42,946*
Financed by					
Share capital	18		19,248		*18,594*
Reserves	19		13,316		*10,897*
Total capital and reserves			32,564		*29,491*
Long term loans	20		10,298		*8,486*
Deferred liability for taxation	21		4,826		*4,669*
Minority interests	22		578		*300*
			48,266		*42,946*

Charles Burman
R. G. Martin
Directors

The notes on pages [853 to 855] form part of these accounts

COMPANY BALANCE SHEET at 31st December 1970

	Notes	1970 £'000	1970 £'000	1969 £'000	1969 £'000
Assets employed					
Fixed Assets	8		978		927
Subsidiary companies	10		42,159		33,931
Associated companies	11		501		711
Current assets					
Debtors	13	788		553	
Cash	15	2,542		6,678	
			3,330		7,231
			46,968		42,800
Current liabilities					
Creditors		1,501		1,494	
Bank overdrafts	16	4,552		4,008	
Taxation		402		132	
Dividends	17	2,057		1,986	
			8,512		7,620
			38,456		35,180
Financed by					
Share capital	18		19,248		18,594
Reserves	19		9,983		8,791
Total capital and reserves			29,231		27,385
Long term loans	20		9,156		7,642
Deferred liability for taxation	21		69		153
			38,456		35,180

Charles Burman
R. G. Martin
Directors

The notes on pages [853 to 855] form part of these accounts

NOTES ON THE ACCOUNTS

1 Turnover consists of sales to external customers excluding sales of associated companies.

	1970 £'000	1969 £'000
2 The group profit before taxation comprises		
Net profits of subsidiaries owned throughout the year	6,559	6,023
Proportion of profits less losses of associated companies (1969—dividends only, grossed up for underlying tax)	366	241
	6,925	6,264
Net profits for the year to 31st December 1970 of subsidiaries acquired during the year, less interest charges for periods since the acquisition dates. In the case of one subsidiary the profit is an apportionment of the results of its 15 month accounting period to 31st December 1970.	684	—
	7,609	6,264
The above profit has been arrived at after crediting		
Income from quoted investments	6	8
Income from unquoted investments	4	3
Income from loans to associated companies	41	30
Sundry interest receivable	415	128
and after charging		
Depreciation	4,803	4,314
Interest on debenture stocks and other loans not wholly repayable within five years	637	571
Interest on loans wholly repayable within five years	30	36
Interest on bank loans and overdrafts	463	565
Sundry interest payable	66	59
Audit fees	66	57
Directors' remuneration (note 24)	153	151
3 Taxation		
The charge for taxation is made up as follows		
United Kingdom corporation tax, based on the profits of the year, at 42½ per cent to 31st March 1970 and at 40 per cent thereafter (1969, 45 per cent)	2,965	2,911
Less double taxation relief	46	33
	2,919	2,878
Transfer to corporation tax equalisation account	149	128
	3,068	3,006
Overseas taxation	134	125
	3,202	3,131
Proportion of taxation charge of associated companies	115	53
	3,317	3,184

Additional taxation would be payable if the profits of certain overseas subsidiaries were remitted to the United Kingdom.
Losses of overseas subsidiaries in the year amounting to £719,000 (1969, £1,175,000) are not available for relief against profits of other companies on which full provision for taxation has been made. These losses, together with losses from earlier periods, are available for carry forward in the subsidiaries concerned.

4 Interest of outside shareholders and pre acquisition profits		
Interest of outside shareholders in the profits (1969, losses) of subsidiaries	38	11
Pre acquisition profits of subsidiaries acquired during the year	214	—
	252	11
5 Group profit attributable to Tarmac Limited		
Dealt with in the accounts of Tarmac Limited	3,620	3,091
Retained by subsidiaries	420	—
	4,040	3,091

TARMAC LIMITED

NOTES ON THE ACCOUNTS

6 Retained profits brought forward in the profit and loss account

	£'000	£'000
As at 1st January 1970		10,507
Tax repayments and net release of tax provisions no longer required	586	
Increase in reserves attributable to premium on introduction of a minority interest in an overseas subsidiary	157	
		743
		11,250
less		
Expenses in connection with acquisitions in the United Kingdom and the introduction of long term finance and a minority interest in an overseas subsidiary	157	
Adjustments and provisions relating to the disposal of subsidiary and associated companies	80	
		237
		11,013

7 Retained profits at 31st December

	1970 £'000	*1969 £'000*
Tarmac Limited	8,805	*8,791*
Subsidiary companies	2,981	*1,787*
Proportion of retained losses less profits of associated companies	(38)	*(71)*
	11,748	*10,507*

8 Fixed Assets

Cost or valuation	Group Land and buildings £'000	Group Plant machinery and vehicles £'000	Group Total £'000	Company Land and buildings £'000	Company Plant machinery and vehicles £'000	Company Total £'000
At 1st January 1970	9,577	44,236	53,813	1,177	353	1,530
Additions at cost	756	5,267	6,023	41	176	217
Subsidiaries acquired during the year	1,357	2,131	3,488	—	—	—
Disposals	(413)	(3,258)	(3,671)	(78)	(26)	(104)
At 31st December 1970	11,277	48,376	59,653	1,140	503	1,643
Representing items at Cost	10,489	48,376	58,865	1,140	503	1,643
Valuation at 31st July 1964	458	—	458	—	—	—
Valuation at 31st December 1964	330	—	330	—	—	—
	11,277	48,376	59,653	1,140	503	1,643
Depreciation						
At 1st January 1970	2,722	23,988	26,710	457	146	603
Depreciation for the year	404	4,399	4,803	25	48	73
Subsidiaries acquired during the year	261	1,327	1,588	—	—	—
Disposals	(108)	(2,511)	(2,619)	—	(11)	(11)
At 31st December 1970	3,279	27,203	30,482	482	183	665
Net book value at 31st Dec. 1970	7,998	21,173	29,171	658	320	978
Net book value at 31st Dec. 1969	*6,855*	*20,248*	*27,103*	*720*	*207*	*927*

Land and buildings comprise the following	Group 1970 £'000	*Group 1969 £'000*	Company 1970 £'000	*Company 1969 £'000*
Freeholds	6,112	*5,150*	478	*538*
Long term leaseholds (over 50 years unexpired)	608	*382*	179	*181*
Short term leaseholds	1,278	*1,323*	1	*1*
	7,998	*6,855*	658	*720*

Commitments for capital expenditure at 31st December 1970 were

	Group 1970 £'000	*Group 1969 £'000*	Company 1970 £'000	*Company 1969 £'000*
Contracts placed	1,364	*1,895*	7	*20*
Authorised but not contracted for	4,950	*3,680*	210	*190*

Depreciation has been provided mainly on a straight line basis to write off fixed assets over the period of their estimated lives.

9 Goodwill represents the excess of the purchase price of the subsidiaries acquired during 1970 over the book value of their net tangible assets at the dates of acquisition. Goodwill arising on acquisitions in previous years has been deducted from reserves.

10 Subsidiary companies

	1970 £'000	*1969 £'000*
Shares at cost, less amounts written off	47,236	*43,252*
Amounts due by subsidiaries	30,603	*17,823*
	77,839	*61,075*
Amounts due to subsidiaries	35,680	*27,144*
	42,159	*33,931*

A list of subsidiary companies is given on pages 8 and 9 which forms part of these accounts.

11 Associated companies

An associated company is one in which the group owns at least 20 per cent of the equity capital but which is not a subsidiary. A list of associated companies is given on page 9.

	Group 1970 £'000	*Group 1969 £'000*	Company 1970 £'000	*Company 1969 £'000*
Interest in associated companies	476	*426*	251	*256*
Loans less amounts written off	256	*654*	250	*455*
	732	*1,080*	501	*711*

The interest in associated companies represents the group interest in the current book value of the net assets of those companies plus premiums less discounts paid on acquisition.
In the opinion of the directors the aggregate values of the interest in associated companies at 31st December 1970 amounted to

	Group 1970 £'000	*Group 1969 £'000*	Company 1970 £'000	*Company 1969 £'000*
	1,969	*1,832*	1,505	*1,521*

12 Stocks

Stocks, stores and work in progress are valued at the lower of cost or net realisable value.

13 Debtors and work in progress

This comprises debtors, prepayments and contract work in progress at estimated net sales value, less amounts received on account.

14 Quoted investments

The market value of quoted investments at the balance sheet date was £111,000 (1969 Nil)

15 Cash

	Group 1970 £'000	*Group 1969 £'000*	Company 1970 £'000	*Company 1969 £'000*
Short term deposits	2,587	*6,170*	2,500	*6,000*
Cash at banks and in hand	525	*1,005*	42	*678*
	3,112	*7,175*	2,542	*6,678*

16 Bank overdrafts

	Group 1970 £'000	*Group 1969 £'000*	Company 1970 £'000	*Company 1969 £'000*
Secured	—	*36*	—	—
Unsecured	5,448	*5,930*	4,552	*4,008*
	5,448	*5,966*	4,552	*4,008*

17 Dividends

	1970 £'000	*1969 £'000*
Final ordinary dividend proposed	2,048	*1,977*
Preference dividend accrued	9	*9*
	2,057	*1,986*

TARMAC LIMITED

NOTES ON THE ACCOUNTS

18 Share Capital of Tarmac Limited

	COMPANY 1970 £'000	1969 £'000
Authorised		
200,000 5½ per cent (free of income tax) cumulative preference shares of £1 each	200	200
42,000,000 ordinary shares of 50p each	21,000	21,000
	21,200	21,200
Issued and fully paid		
200,000 5½ per cent (free of income tax) cumulative preference shares of £1 each	200	200
38,096,513 Ordinary shares of 50p each	19,048	18,394
	19,248	18,594

During the year the issued share capital was increased by the issue of 1,309,322 shares as part of the consideration for the purchase of a subsidiary company.

19 Reserves

	Group £'000	Company £'000
Exchange contingency reserve 1st January 1970	390	—
Share premium account arising during the year on the issue of 1,309,322 ordinary shares	1,178	1,178
Profit and loss accounts	11,748	8,805
	13,316	9,983

20 Long term loans

	1970 £'000	1969 £'000
Tarmac Limited		
Debenture stock redeemable at par—secured		
5¼% stock 1974/79	125	142
6¼% stock 1986/91	2,500	2,500
6¼% stock 1989/94	2,000	2,000
6¾% stock 1989/94	1,000	1,000
7¼% stock 1992/97	2,000	2,000
8¾% convertible unsecured loan stock 1990/95	1,531	—
	9,156	7,642

At the option of the holders, the unsecured loan stock is convertible into ordinary shares in the company, in each of the years 1972 to 1976 at the rate of one ordinary share for every £1.72½ nominal of convertible stock.

Subsidiary companies		
Secured loans		
Loan bearing interest at 7¼% per annum repayable 1971/78	263	301
Loan bearing interest at 9½% per annum repayable 1971/74	192	176
Others	30	19
	485	496
Unsecured loans		
Loan bearing interest at 7¼% per annum repayable 1971/76	235	282
Loan bearing interest at 8¾% per annum repayable 1972/85	376	—
Others	46	66
	657	348
Total	10,298	8,486

21 Deferred liability for taxation

	Group 1970 £'000	1969 £'000	Company 1970 £'000	1969 £'000
Corporation tax payable on 1st January 1972	2,844	2,763	40	140
Corporation tax equalisation account	1,982	1,906	29	13
	4,826	4,669	69	153

Taxation has been equalised in the United Kingdom companies on the basis of corporation tax at 40 per cent on the excess of the net book value of fixed assets eligible for capital allowances over the written down value of such assets for taxation purposes.

22 Minority interests

This consists of the share capital and the proportion of reserves attributable to minority shareholders in subsidiaries.

23 The company has given guarantees on behalf of associated companies for bank overdrafts up to a maximum of £1,400,000 (1969, £925,000) of which £1,058,510 (1969, £566,904) was drawn at 31st December 1970. It has also guaranteed a bank loan of up to £425,000 (1969, £300,000) to an associated company.
Subsidiary companies had contingent liabilities in respect of bills discounted amounting to £165,544 (1969, £460,368) and for £221,072 (1969, £238,000) in respect of guarantees.

24 Directors' remuneration

	1970 £'000	1969 £'000
The remuneration of the directors of the parent company was as follows		
Fees	6	7
Other emoluments	141	139
Past directors' pensions	6	5
	153	151
Chairman	£10,500	£10,500
Highest paid director	£27,409	£21,214

		Number of directors 1970	1969
Other directors	Up to £ 2,500	5	7
	£5,001 to £ 7,500	1	1
	£7 501 to £10,000	1	3
	£10,001 to £12,500	–	1
	£12,501 to £15,000	2	2
	£15,001 to £17,500	–	1
	£17,500 to £20,000	2	–

		Number of employees 1970	1969
Employees earning more than £10,000 per annum	£10,001 to £12,500	6	4
	£12,501 to £15,000	1	–

25 Foreign currencies have been converted into sterling at the rates of exchange ruling at 31st December 1970.

REPORT OF THE AUDITORS

We have examined the balance sheet, group balance sheet and group profit and loss account on pages [852 and 853]. The accounts of certain subsidiary companies have been audited by other firms.

In our opinion the balance sheet and the group accounts read in conjunction with the notes on pages [853 to 855] comply with the Companies Acts 1948 and 1967 and give respectively a true and fair view of the state of the company's affairs at 31st December 1970 and so far as concerns members of the company, a true and fair view of the state of affairs and of the profit of the group.

Peat, Marwick, Mitchell & Co.

18th May 1971

CITY NOTES

BALANCE between hopes, fears and facts is the trend-maker in stock-markets. Soon after the Budget at the end of March, hopes rose on the expectation that the Budget, either of itself or reinforced by further measures in the summer or autumn, would see the economy expanding and that there would at least be prospects of the Government winning the battle against rising wages and prices.

Those hopes had to wrestle with facts still stemming from the past period of restriction, pinched industrial profit margins and cramped liquidity. The hopes were that the outlook was brightening.

Those hopes have not been realized and the facts stemming from the past have proved stronger from a bearish point of view with the result that the early flush of improvement in the equity sectors of the stock-market proved short-lived.

Once hope is dashed the stock-market invariably turns completely the other way and indulges in remorse. Fear replaces hope and the current fear is that the Government has lost control of the wages and, even, the economic situations. There is even a further fear that the Government does not know how to win back control.

This is as extreme a fear as the ebullience of April and May was an extreme of hope. The true course is between the two and that could mean the market being on the low side now.

* * * *

THE decision of the finance companies to put their lending accent on personal loans rather than hire-purchase finance is another step towards the recommendations of the Crowther Committee being put into operation despite the lack of any Government decision on the recommendations of that report. At present the finance companies' decision, like that of the Banks to extend personal lending facilities, is academic since there is little evidence to suggest that the public at large is confident enough to buy with cash let alone confident enough to borrow money for the purpose. What the decision does do, however, is to blunt one of the Chancellor's credit relaxation weapons.

* * * *

AT a time when some computer organizations are not exactly having everything their own way, there is City interest in computer contracts placed by Barclays Bank Trust Co and Barclays Unicorn with Baric Computing Services and Dataskil – Baric being a Barclays-cum-International Computers concern. Baric is to provide a total turnkey computing service for Barclays Bank Trust Co and Barclays Unicorn, and Dataskil has been engaged by Barclay Trust for the initial programming development of its investment management, trustee and accounting system.

Mr R. Woolf, managing director of Baric, considers that the benefits to be gained by subcontracting the data processing operation to a service bureau are now being recognized by many companies. The market, he thinks, 'could be worth more than £20 million per annum by 1975'.

The Dataskil system will deal with more than 30,000 trusts and investment management accounts together with certain major unit trusts and pension funds. It will maintain details of 150,000 banking accounts, 10,000 clients, and investment portfolios covering some 300,000 holdings in stocks, shares and properties.

RATES AND PRICES

Closing prices, Tuesday, June 22nd, 1971.

Tax Reserve Certificates: (26.4.71) Companies 4½%; 2½% surrendered for cash; Personal 4%

Bank Rate

Nov. 9, 1967	6½%	Feb. 27, 1969	8%
Nov. 18, 1967	8%	Mar. 5, 1970	7½%
Mar. 21, 1968	7½%	April 15, 1970	7%
Sept. 19, 1968	7%	April 1, 1971	6%

Finance House Base Rate –June 1st, 1971. 7%

Treasury Bills

April 16	£5·7561%	May 21	£5·6276%
April 23	£5·7081%	May 28	£5·6318%
April 30	£5·6844%	June 4	£5·6090%
May 7	£5·6840%	June 11	£5·6064%
May 14	£5·6517%	June 18	£5·6070%

Money Rates

Day to day	4⅜–5⅞%	*Bank Bills*	
7 days	4½–6⅛%	2 months	6¾–6⅞%
Fine Trade Bills		3 months	6¾–6⅞%
3 months	7¼–7¾%	4 months	6¾–6⅞%
4 months	7¼–7¾%	6 months	6¾–6 15/16%
6 months	7½–8%		

Foreign Exchanges

New York	2·4191	Frankfurt	8·4750
Montreal	2·4780	Milan	1512·20
Amsterdam	8·6400	Oslo	17·2020
Brussels	120·47	Paris	13·3740
Copenhagen	18·1240	Zürich	9·9120

Gilt-edged

Consols 4%	44⅛	Funding 6½% 85–87	82¼
Consols 2½%	26⅝	Savings 3% 65–75	88 13/16
Conversion 3½%	38¼	Treasury 9% 1994	96½
Conversion 5¼% 1974	97 5/16	Treasury 6½% 1976	99¼
Conversion 6% 1972	100 5/32	Treasury 3½% 77–80	75¾
Funding 3½% 99–04	44⅛	Treasury 3½% 79–81	74¾
Funding 4% 60–90	98	Treasury 5% 86–89	67⅜
Funding 5¼% 78–80	84⅞	Treasury 5½% 08–12	62⅝
Funding 5½% 82–84	79⅝	Treasury 2½%	27⅞
Funding 5¾% 87–91	72¼	Victory 4%	97
Funding 6% 1993	72⅛	War Loan 3½%	37¾

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EQUIPMENT NOTES AND NEWS

Pocket Electronic Calculators

'EVERY auditor must have one' has been the sales plea of the distributors of every pocket calculator that has been marketed over the past year. Claiming that the 'Pocketronic' is the first pocket calculator with print-out facilities, a new company of the Ozalid Group, Calcutronics Ltd, is marketing it in the United Kingdom. Being no more than eight and a half inches long, four inches wide, and two inches deep, its size makes it ideal for personal executive use, and the print-out facility should make it foolproof in operation.

The manufacturers have endeavoured to vitiate the necessity for an operator to recommence a calculation when the result looks improbable by making it possible to check earlier steps in the operation. This is done by the printing out of all intermediate calculations, thus providing a permanent check.

Recommended retail price is £165, with high speed charger a further £14·50, and a set of five tapes (1,300 ft) £3·65.

Easy-to-read panel

If the Pocketronic is considered to be a little too large for those who do not use hare pockets, the 'Elsi-8' marketed by Bosco Ltd is very pocketable and is claimed to be the smallest electronic calculator in the world. This machine is barely six and a half inches long, four inches wide and three inches deep, and is a mini-micro battery/mains model with the ability to multiply or divide 8-digit factors by 8-digit factors so as to give an 8-digit answer. Other features of this very compact machine are that it gives true credit balances, has a floating decimal point, can add, subtract and handle multifactor calculations. Each result is flashed on a shaded soft-glow easy-to-read panel in brilliant green numbers.

Unquestionably the Elsi-8 can be slipped into a jacket pocket, and yet it contains its own re-chargeable battery pack that gives three hours' continuous operation before requiring re-charge. On the other hand, the machine can be used while connected to mains electric supply. Re-charge time is only three hours, but there is an automatic cut-out to ensure that the battery is not damaged if left connected for a longer period – for example, overnight.

At £158, the Sharp Corporation, manufacturers of the Elsi-8, have produced an everyman's calculator that can be held almost in the palm of a hand, and yet at the same time be ideal for all simple calculations.

In a similar price bracket ADM Business Systems market the Toshiba 1002 'micro' calculator. At ten inches long, seven inches wide, and three and a half inches deep, it is a little larger than the Pocketronic, but it has a commercial specification equivalent to many larger machines with a 14-digit calculating capacity and 10-digit display. All basic arithmetic operations may be performed as well as raising to powers, squaring, automatic percentage increase and decrease calculations, and the holding of constant factors.

The Toshiba 1002 has an advanced 'Digitron' display and polarized screen enabling figures to be read easily under the brightest lighting. Recessed into the body of the machine, the screen is protected by a moveable hood which is automatically raised when the 'on' button is depressed. To turn the calculator off, the hood is simply pressed down into the casing again. All negative factors and results are shown correctly with an illuminated minus sign, and there are warning lights to indicate both the display capacity and the overall calculating capacity of the machine.

Pocketronic.

Elsi-8.

Planned Source Documentation

Computer Control of Instalment Payments

ONE of the major problems in computer use is that of originating the date to be processed. In any large-scale application, the economics of processing the data electronically will be very heavily dependent upon the extent to which manual data preparation can be avoided. Where an original source document must be punched and verified, the cost of each unit of input will figure largely in the overall economics of the application.

Data capture techniques

In recent years, much of the research effort in the data-processing field has been devoted to surmounting this obstacle. This is being achieved, firstly through the development of various devices capable of reading stylized characters, such as MICR, OCR B, CMC 7, etc.; and secondly, by careful planning of the paper work used in any system to ensure that source documents are pre-coded before being released for use – thus eliminating as far as possible mis-codings as well as the need for manual operations before the processing can take place.

At a seminar last week, Thomas De La Rue, who claim to be the world's largest security printers, outlined the facilities that they have for document preparation. Some of this work is, of course, familiar already in the form of pre-coded cheques in machine-readable characters where only the amount of the cheque needs to be added, and in the documentation for the Giro system. Over the last four years they have developed one of the largest on-line computer-controlled plants in this country, if not in the world, for the production of over 500 million readable documents per year.

The production system is highly sophisticated, not only from the point of view of the production process itself, but also in the techniques adopted in planning and controlling customers' numbering and coding systems and in the total security that is exercised over the whole operation. It is also highly flexible in that sets of different forms carrying a range of information can be produced in sequence.

One major area of data capture that has been recently pioneered is that related to inpayment accounting. Many computer applications have been installed which deal with internal accounting procedures, but these tend to stop short at the point where customer inpayments are handled. In many types of business the recording and control of these inpayments are essential for the progress of the business.

In any situation where the customer or client makes a series of regular payments for goods or services, as for example in the field of hire-purchase, credit instalments, rental payments, insurance and rating, the managerial problem will be to get the payments banked as quickly as possible; to identify the state of the customer's accounts at any time; to ensure that receipts are matched to the correct account; and finally to cut down the costs and time of handling the data involved.

Overcoming payment problems

Problems arise because payments are made at varying times and via a number of channels and in different forms, e.g., cash, cheque and giro. The firm itself may have a number of locations at which payments may be made personally as well as through the post. At the same time the use of a computer will necessitate keeping the records at a central point. This means that each receipt must be handled individually as a piece of data input.

In order to overcome these problems, the De La Rue scheme provides for the creation of machine-readable documents corresponding to each payment required, whether it is in the form of invoices or books of pre-printed payment vouchers. In some situations they may be direct debit or automatic debit transfer documents where no separate payment demands are required. One of the major elements in the system is the way in which the documentation preparation at De La Rue links in with the firm's own data-processing system.

System example

Consider the situation where the accounts of several hundred thousand customers are stored on magnetic tape – the information stored including, in the case of instalment, rental or similar payments, the amounts and dates on which each individual payment should be received. At the start of the system the relevant data can be extracted from the store on to tape and transmitted to De La Rue. This data will then be fed into the on-line production system for the printing of fully-encoded machine-readable sets of payment documents. For convenience they can be made up into a book set for each customer. When the system is operating, the computer can be programmed to trigger off the print of a new book of vouchers at the appropriate time.

The payment documents themselves will include the customers' code and the amount and date of each payment due. Payments of exactly the correct amount can then be used directly for the creation of a magnetic tape of the day's transactions, leaving only non-exact payments to be handled separately. In one company where this has been used, one of the beneficial effects of pre-coding each customer's reference number, amount due, and date, is that customers have tended to accept a degree of discipline in their payments and the present query rate is only 2 per cent of transactions. Providing that the payment is accompanied by the relevant pay-in document, it does not matter by which channel the payment has been made. In the firm quoted above, receipts are reconciled and processed through the system within twenty-four hours in spite of national coverage.

The advantages claimed for the payment data system are that it:

(*a*) eliminates data transcription and therefore human error;

(*b*) speeds up cash flow;
(*c*) improves credit control through exception accounting;
(*d*) gives the customer a choice of payment methods;
(*e*) integrates directly with the firm's computerized accounting system;
(*f*) provides a further link in the automation process and therefore speeds up management information.

This ability to produce pre-coded documents in sets, bound where necessary, where each item in the set carries personalized information and contains different information from the other items, is a further step forward in eliminating manual preparation of computer input data. In a cashless society, this is obviously going to play a greater part in the future, but one can visualize many other areas where the same basic concepts may be relevant – for instance, stock control or in supermarkets, where mark-sensed documents could trace movements much more accurately and speedily.

STUDENT ROUNDABOUT

Liverpool's Approach to Education

LIVERPOOL, the home of the first organized society of accountants in England more than a century ago, still preserves its traditional independence of professional thought. Whereas the ACASS Education Council last January recorded strong support for district society 'schools of account' (*The Accountant*, January 14th and 21st), and pointed to Liverpool as an example of the worst effects of the public sector in education, a recent report from the Liverpool students' society claims that 'With a Polytechnic of such a high standard, the proposed school of account is at present unnecessary. We have determined rather to devote our whole attention and energy to formulating a system, with the Polytechnic at the centre, in which an articled clerk may be provided with a complete training, with the full support of his principal'.

Timing problem

The Liverpool students feel that this theory is academically and technically sound, and they look to the Liverpool Society of Chartered Accountants and to the staff of the Polytechnic to help them in formulating a policy acceptable to all parties and which would be to the benefit of the students.

There is very little wrong, says the Liverpool report, with the Polytechnic treatment of the intermediate examination. Both the four-week introductory course and the four-week pre-examination course are very necessary. The only problem is the timing of the September pre-examination course. At present there is a gap of over two months between the end of the course and the examination, which is clearly an unhappy state of affairs.

A number of Liverpool principals have, however, stated their dissatisfaction with the nine-month course in its present form. The inadequacies in this course are:

(1) The Intermediate syllabus is not fully covered, adding to syllabus difficulties when taking Final Part I.
(2) Practical office experience is minimal.
(3) The holidays are too long.
(4) The student on a nine-month course is permitted to be 'referred' in one subject. His position in relation to the Intermediate student, who must pass all papers at one sitting, should be examined.

The Polytechnic has stated its intention to run an eight-week revision course prior to the Final examinations. The number per group is to be limited to 20 with no restriction on the number of groups, subject to demand. The main problems here are felt to be:

(1) Many people are unable to take eight weeks off if they have failed their examination before.
(2) The course is intended to be totally a revision course.
(3) Many principals in Liverpool take the minimum study leave period indicated in articles as a guide-line to the *normal* study leave necessary to pass the examinations.
(4) The course, being a revision course, cannot cater for many of the present-day students who have found the correspondence course difficult to keep up to date, or that the methods used to teach the subjects in the correspondence course are different from those at the Polytechnic.

Possible alternative

As a basis for discussion, Liverpool has drafted a programme of education to cover the whole period of articles, including provision for a correspondence course linked to regular lectures and tutorials, with revision courses of five or six weeks' duration before each part of the final examination. The essentials of such a programme are seen as:

(1) A correspondence course run locally. The course should only be made available to the students with whom personal contact has been made at the nine-month course or one-month introductory course.
The usual correspondence fee would be charged, local qualified accountants marking the papers and personal tutors then scrutinizing the marked papers and keeping a detailed record of each student's work.
When response is known, evening tutorials could be arranged between the students and tutors. The tutors can keep an eye on the group's work, and encourage people who fall behind.
(2) Lectures would be run in conjunction with the LCASA with an educational and practical theme, during two lecture seasons, the idea being to increase the students' general accountancy knowledge and to supplement the basic education programme.

Whilst recognizing that there are numerous administrative and practical difficulties to overcome, the LCASA pledges its support, in any way possible, to assist in setting up the scheme and ensuring its success.

GOOD START FOR NEW CROYDON BRANCH

DESPITE the date coinciding with the Derby and the European Cup Final, there was an encouraging response to the inaugural meeting of the Croydon branch of the London CASS held on June 2nd, at the Blue Anchor Hotel, Croydon.

Attended by 25 students, of whom 16 worked in Croydon and 9 in the

London area, interest was also shown by another 10 who were unable to attend.

Mr I. W. Fawkner, F.C.A., chairman of the Croydon Society of Chartered Accountants, opened the meeting and Stephen Parry, B.A., A.C.A., chairman of London CASS, then spoke on the objects of the Society and its relationship with the various branches.

To assist in finding out the kind of activity students wanted for the new branch, Mr J. S. Cox, A.C.A., Careers Adviser of the Croydon Society of Chartered Accountants, circulated a questionnaire, the answers to which may be summarized as follows:

Frequency of meetings – once a month throughout the year during the evenings on either Mondays or Tuesdays commencing at 6.30 p.m. Type of meeting – lectures and discussion. Topics preferred (in order of popularity) – general financial and economic subjects; taxation; current auditing techniques, and industrial visits.

A working committee of six students was set up, to work with Mr J. S. Cox and Mr G. P. Nicholls, A.C.A., to formulate a programme for the ensuing months. Further details will appear in 'Roundabout', and all members living in the Croydon area will be circularized with the programme after the membership records have been computerized.

In the meantime anyone wishing to join the branch should contact A. Hamid, acting secretary, c/o Carter Nichols, 38–40 Sydenham Road, Croydon. Telephone 688 5636.

BIRMINGHAM LOSE TO FITZWILLIAM

On June 4th, Birmingham CASS travelled down to Fitzwilliam College, Cambridge, for their annual cricket and tennis matches.

Having been put in to bat by Sanders, the Birmingham captain, the Cambridge team started disastrously by losing 4 wickets for 27 runs. However, a final stand between Frith, the Cambridge captain, and Stewart, steered the College clear of a quick defeat and they declared at 176 for 6.

Birmingham started well, but on a very cold day nothing seemed to get warmed up and they could not raise their game – finishing with 157 for 7 at close of play, Taylor being the top scorer with 36.

In the one-pair tennis match Fallows and Jones thrashed the hosts 6–2, 6–1, 6–1, and with that, swapped partners and had a more even, friendly match.

A very social evening was had by all the Birmingham players, and even though the coach happened to break down on the way back, everyone returned safely.

'Booz Crooz'

On Saturday, July 3rd, the Society and the Birmingham law students are 'getting together' for a 'Booz Crooz' on a barge sailing from North Quay, Worcester, at 8 p.m. A grand nautical evening is guaranteed – a bar will be open throughout the trip and dancing will be to the 'Sounds Incredible' discotheque.

For the few remaining tickets, contact the 'Booz Crooz' organizer, Patrick Whinyates, at the Library, Fountain Court, Steelhouse Lane, Birmingham B4 6EA, or ring 021–236 5832. Tickets are £1·20 each.

LIVERPOOL'S SOCIAL EVENTS

A very successful treasure hunt was held by the Liverpool CASA on Saturday, June 12th. The event was followed by a discotheque in the evening attended by over 120 members and guests.

Forthcoming events include a chess congress next Tuesday, June 29th, following a challenge by Liverpool law students, and an ever-popular five-a-side football tournament from July 7th to 9th. As usual, applications to enter teams for this tournament have been numerous, although there are still one or two places to make up the maximum of 30 teams. The winners will receive a handsome shield, donated by a local firm, and on the final evening there will be a discotheque at the Postgraduate Club, Liverpool University.

SOUTHAMPTON'S TRAMPS BALL

The first annual tramps ball of the Southampton CASS was held at Hiltingbury Farm with an attendance of well over 100.

With the sounds of the Monster Magnet Disco and the inevitable beer drinking contests, the proceedings went on well into the early hours. With the sunrise, a long weary line of 'tramps' was last seen trudging over the horizon homeward led by the Society's illustrious Chairman, Margaret Fray.

VOTES CAST FOR LONDON CASS COMMITTEE

The names of those elected or re-elected to the committee of the London CASS were announced under 'Roundabout' last week, and the actual votes cast in the ballot were as follows:

	Votes
Michael J. Lafferty	108
Richard M. Vinson, B.A.(HONS.)	107
Julian C. H. Dunlop	103
Jonathan J. Taylor	85
Jeffrey Lawson, A.C.A. (re-elected)	83
Alison Croser (re-elected)	79
Michael D. H. Illingworth	71
Peter de Winton (re-elected)	69
John L. L. Underhill, B.A. (re-elected)	63
Roderick J. Shire	59
Moelwyn Howell	52

As there were 10 vacancies in the membership of the committee and 11 candidates had been proposed and seconded, Moelwyn Howell was not re-elected.

LETTER TO ROUNDABOUT

Training Changes for Changing Times

Sir, – A comment made by Professor Bernard B. Goodman, M.B.A., C.P.A., of the University of Hartford, Connecticut, when interviewed by Roundabout (May 13th issue) interested me. In reply to the final question put to him, Professor Goodman remarked . . . 'I did admire the young people's common sense'. He was referring to members of ACASS and London CASS who have to spend nearly all their training time working for their employers – perhaps seven hours a day, five days a week – with time off only for examinations.

For this reason alone, they have to have their feet on the ground and are a lot more mature than their counterparts in the USA and Canada. There are many Ph.D. students who are physically and emotionally incapable of working for more than one and a half hours a day, simply because they have never had to do more, except in an examination room.

Having been a student at both a Canadian university and an American university, I feel I am in a position to comment on Professor Goodman's remarks, especially as I was an extra-mural student at the University of London before I travelled abroad.

While a student at a Canadian University, I was fortunate to be in a class with half the members aged about 30 to 35 years of age, all starting a new career. As a group, they were

popular with lecturers because they made a very positive contribution to discussion periods. For example, one of the most frequent contributors to discussions during English Literature was a former upholsterer, his mother tongue was not English. Another was a former manager of a super-market. Yet another, who produced his assignments and essays on time and got better than average marks, was the father of five children, whose wife worked a night shift to provide the family with rent and food while the husband was at university.

By contrast a young student in the same group, whose father was a schoolmaster and who had no financial worries and little responsibility, often skipped two lectures a day and never had his assignments prepared in time. Many of the other younger students who went to university straight from High School were similarly unenthusiastic. Certainly they had less incentive than married students, but they had more time and natural energy and it is easier to learn the younger you are.

Organization of time is the real key to the matter. Those who had worked for their living, in whatever field, had learned to organize their time. With only three hours to work they worked hard to get three good hours study in that period of time.

Another of Professor Goodman's comments on ACASS interested me. He stated . . . 'If the principals will begin to *hear out* the students and work with the students in a partnership arrangement, I think they will find themselves before long with a much more qualified staff member'. . . (my italics). At a recent liaison meeting at the Institute, held between senior officers there and a few of the ACASS Executive Committee, the points raised by the ACASS delegates were designed to make future articled clerks better qualified than their predecessors. This is far thinking on the part of young men in their early twenties who have to put in a daily office stint for three or five years and study most evenings and week-ends – especially as even one tiny step forward represents many hours of committee work, getting facts and figures, and preparing agendas and minutes. It is not surprising that they made a good impression on Professor Goodman.

Yours faithfully,
BARBARA WORTH,
London. PRESS OFFICER, ACASS.

London's Systems Analysis Course

SOME 40 members of the London CASS attended a three-day specialized course on systems analysis from Wednesday to Friday of last week. Organized by the consultant services department of the National Cash Register Co, the course successfully achieved its objective by providing members with a non-technical introduction to computers and to the role of the systems analyst in producing an effective computer system.

The speakers were Mr D. F. Bailey, B.A.(COM.), M.B.C.S., who lectures on electronic data processing subjects at Bristol University, University of Aston, and the Graduate Centre for Management Studies, and Mr M. J. Brookman, Head of the Accountant Liaison Services of NCR. Subjects covered included basic principles of EDP, computer pitfalls, the role of the systems analyst, data collection techniques, flow-charting, documentation methods, and job specification.

A detailed course manual was supplied to each member attending and a case study was used throughout to back up the formal lecture periods and to provide members with practical appreciation of the problems and techniques of the systems analyst.

Sir Harold Gillett, Bt, M.C., F.C.A., welcoming members to the systems analysis course. *Left to right:* Mr Derek du Pré, Society's secretary, Mr John Critchlow, course chairman and a member of the Society's committee, Mr D. F. Bailey, B.A.(Com.), M.B.C.S., and Mr J. Brookman, both lecturers.

Simeon Galpert (*second from left*) makes a humorous quip during a break between sessions. Sharing the joke are (*left to right*): W. Lukebera, Roger Turner, Jan Eliasson, and Subeata Kar.

Notes and Notices

THE ACCOUNTANT
Index to Vol. 164
January to June 1971

The general index to this volume – January to June 1971, Vol. 164 – will be published with the issue dated July 1st, 1971.

The parts of the volume should therefore not be sent for binding until the index has been added.

PROFESSIONAL NOTICES

DAY, SMITH & HUNTER, Chartered Accountants, of Maidstone, announce with regret the sudden death of Mr KEITH MAXWELL HOPKINS, F.C.A., on June 10th, 1971, at the age of 44.

HALLETTS, Chartered Accountants, of 38 Finsbury Square, London EC2, announce that Mr R. J. SEDDON, A.C.A., became a partner in the firm on May 24th, 1971.

Mr LAWRENCE H. NEWMAN, M.A., LL.B., A.C.A., announces that he has resigned from GRAINGER, BONN & CO, Chartered Accountants, by mutual agreement, from June 11th, 1971, and is now practising under the style of L. H. NEWMAN & CO, at 22 Tooke Close, Pinner, and at 8 Queen Anne Street, London W1.

WENHAM, MAJOR & CLARKE, Chartered Accountants, announce the admission to partnership on July 1st, 1971, of Mr TONY C. DAUKES, F.C.A., who has practised for some years as T. C. DAUKES & CO and C. J. WEIR & CO. Mr DAUKES will be at the London office.

APPOINTMENTS

Mr H. J. Caine, A.C.C.A., has been appointed group financial controller of the Fraternal Estates group of companies, and managing director of Fraternal Securities, one of the principal operating subsidiaries of the group.

Mr P. H. Harrison, A.C.C.A., has been appointed secretary of Feedex.

Mr Andrew G. Johnstone, A.C.A., has been appointed group accountant of Siemssen, Hunter. He was previously in charge of the international audit department of Max Factor & Co Inc in Los Angeles.

Mr Walter G. Hunniball, F.C.A., F.C.I.T., has become deputy general manager of Ribble Motor Services.

Mr Brian Arnold, F.C.A., has been appointed controller of Univac Division Sperry Rand.

Mr Brian Arnold. Mr Hugh Child.

Mr Hugh Child, C.A., has been appointed accountant of Computerized Business Systems.

Mr B. W. Durrant, F.C.A., has been appointed comptroller of Henry Wiggin & Co.

Mr B. W. Durrant. Mr J. A. Goldsmith.

Mr J. A. Goldsmith, M.A., F.C.A., A.C.W.A., who joined W. S. Atkins Group last year as secretary and financial director designate, has been appointed to the board of the company.

Mr M. E. Mulla, F.C.C.A., has become chief accountant of Thomson-CSF United Kingdom, with the additional function of deputy secretary.

BIRTHDAY HONOURS

Last week we gave the names of members of the profession who appeared in the Birthday Honours List. We have since learned that Mr L. W. Smith, F.C.A., deputy chairman, North Thames Gas Board for the past four years, has been awarded the O.B.E.

NEW APPOINTMENT FOR MR W. E. PARKER
Local Employment Acts

Mr W. E. Parker, C.B.E., F.C.A., has been appointed chairman of the Local Employment Acts Financial Advisory Committee, in succession to the late Sir William Lawson, C.B.E., B.A., F.C.A. Mr Parker is senior partner in Price Waterhouse & Co and a Past President of The Institute of Chartered Accountants in England and Wales.

The Committee (LEAFAC) was set up under the Local Employment Act 1960. It advises the Secretary of State for Trade and Industry on applications for loan and other assistance, and on building grant applications which are referred to it.

INQUIRY INTO THE COFFEE INDUSTRY

Mr Ian D. Hunter, F.C.A., has been appointed by the Government of Uganda as a commissioner to serve on the Commission of Inquiry into the affairs of the Coffee Marketing Board and the coffee industry in Uganda.

Mr Hunter, who is a partner in Lawrie Prophet & Co and Peat, Marwick, Mitchell & Co, of Kampala, Uganda, was admitted to membership of the Institute in 1956.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES
P. D. Leake Awards

The P. D. Leake Committee of The Institute of Chartered Accountants in England and Wales offers one teaching fellowship and three graduate studentships for accountants (who need not be university graduates) to study for a higher degree in accounting and finance or some aspect thereof, tenable from September 1972.

The fellowship, valued at £2,500 per annum, is open to accountants interested in a teaching career and with some post-qualifying experience. Studentships, each valued at £1,100 per annum, are open to recently qualified accountants who feel interested in a teaching career after obtaining further experience.

Candidates must be citizens of the United Kingdom or Eire, under 30 years of age, and members of one of the six recognized bodies of accountants. The awards will be tenable at any university, university college, polytechnic or other institution of

advanced studies participating in the scheme sponsored by the joint standing committee on degree studies and the accountancy profession and are renewable for a second year, subject to satisfactory progress. Acceptance by the university or other institution is the responsibility of the candidate.

Details of courses available, together with regulations and application forms, are available from the secretary to the P. D. Leake committee, at Chartered Accountants' Hall. Applications must be made by October 1st, 1971.

NEW ACCOUNTANCY DEGREE COURSE

A new-style degree course in accountancy, with a strong vocational element, begins this autumn at Manchester Polytechnic, on which there will be an annual intake of between 30 and 40 students.

Leading to a BA honours degree, conferred by the Council for National Academic Awards, the four-year course is the first in the country to be run on 'sandwich' lines. This means that undergraduates will spend the whole of their third year engaged in practical training outside the polytechnic in the office of a firm of accountants, in the treasurer's department of a local or public authority, or in the financial section of an industrial or business organization.

The main discipline of accounting, which runs throughout the course, develops in logical progression from the basic principles and concepts of the first year to applied studies of decision-making, control and financial analysis in the final year. Supporting subjects include economics, mathematics and statistics, law, sociology and computer studies.

ADMINISTRATION OF ESTATES ACT 1971

The Administration of Estates Act 1971 received the Royal Assent last month, and its principal provisions come into effect on January 1st, 1972.

As noted under 'Current Law' on June 3rd, the personal representatives' rights of preference and retainer are abolished. In place of the administrator's bond which has hitherto been required, the High Court may require one or more sureties to guarantee, within any limit imposed by the Court, any loss arising from a breach by the administrator of his duties as such. No action may be brought on any such guarantee without leave of the Court.

LEICESTERSHIRE AND NORTHAMPTONSHIRE CHARTERED ACCOUNTANTS

Mr Richard Watkins, F.C.A., the new President of the Leicestershire and Northamptonshire Society of Chartered Accountants, is a partner in the firm of Cooper Brothers & Co.

Born in 1923 and educated at Clifton College, he was articled in 1939 with Smithson, Blackburn & Co, of Leeds, and in 1949 was admitted an Associate of the Institute.

From 1941 to 1946, Mr Watkins served in the Royal Air Force and then returned to Leeds. After working for two years in Manchester he moved to Northampton in 1950.

He was assistant secretary of the Society for five years and President of the students' society from 1966 to 1969.

He is married with one son and twin daughters.

Other new officers for 1971–72 are:

Vice-Presidents: Messrs R. C. Bishop, F.C.A., and F. R. Dixon, F.C.A.

Secretary and Treasurer: Mr W. Sowman, F.C.A., A. C. Palmer & Co, Court Chambers, Friar Lane, Leicester.

Assistant Secretary: Mr D. T. Dutton, F.C.A., A. L. Peatman & Co, 6 Spencer Parade, Northampton.

Librarian: Mr M. G. Freeman, F.C.A., Peat, Marwick, Mitchell & Co, 21 The Crescent, King Street, Leicester.

SHEFFIELD DISTRICT'S NEW PRESIDENT

Mr Peter W. Allott, B.A.(ECON.), F.C.A., a partner in R. W. Allott & Co, Chartered Accountants, of Rotherham and Worksop, has been elected President of the Sheffield and District Society of Chartered Accountants for 1971–72. Born in 1936 and educated at Rotherham Grammar School and Sheffield University, Mr Allott was articled to Mr Leopold Ettling, F.C.A., of Camm, Metcalf, Best & Co, Chartered Accountants, of Sheffield, now amalgamated with Thornton Baker & Co. He was admitted to membership of The Institute of Chartered Accountants in England and Wales in 1960.

After working for a short time with Cooper Brothers & Co in London and Brussels, he returned to Rotherham as a senior clerk, and subsequently a partner, in the firm founded by his father in 1927. For six years he has served as a member of the District Society committee.

Married with two sons, Mr Allott is a lay reader in the parish of All Saints, Rotherham, sings in the Sheffield Philharmonic Chorus, and is a

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member of Rotherham Round Table. When his professional and other commitments permit, he enjoys fell walking and caravanning with his family.

Correction

In some copies of *The Accountant* for June 17th, a photograph of Mr P. W. Allott was incorrectly captioned as Mr T. L. Waring, B.A., F.C.A., President of the Leeds, Bradford and District Society of Chartered Accountants.

We offer our sincere apologies to both gentlemen for any embarrassment or inconvenience which they may have suffered.

ANNUAL CHURCH SERVICE

A special service for members of the Institute will be held in St Margaret's Church, Lothbury, London EC2, at 12.30 p.m. on Wednesday, July 7th, 1971. The service will be conducted by the Reverend A. J. Drewett, M.A., B.SC., Rector of St Margaret and Rural Dean of the City, and the address will be given by the Reverend E. F. Carpenter, M.A., PH.D., Canon and Archdeacon of Westminster.

Members of the Council will be present, and the President hopes that as many members of the Institute as possible will also attend.

THE INSTITUTE OF INTERNAL AUDITORS

London Chapter Officers

Mr Robert P. Wylde, F.C.A., has been elected President of the London Chapter of the Institute of Internal Auditors in succession to Mr Frank J. Rigg, F.C.A.

Articled to Mr R. W. Cox, F.C.A. (currently a member of the Council of The Institute of Chartered Accountants in England and Wales), Mr Wylde's professional studies were unfortunately interrupted by the Second World War, in which he was commissioned in the Lancashire Fusiliers. He qualified as a chartered accountant in 1946, and in 1948 joined Anglo-Iranian Oil Co Ltd (now BP), where he became chief accountant at their Kent refinery. He was appointed deputy chief accountant of Iraq Petroleum Co in 1960 and chief internal auditor in 1961.

Mr Wylde has been a member of the Institute of Internal Auditors since 1961, and a member of the board of governors of the London Chapter

since 1965. As chairman of its Research Committee, he was largely responsible for the recent publication of its internal audit manual.

The new vice-president of the London Chapter is Mr C. L. Duly, M.B.E., F.C.C.A., who is chief operational auditor of Standard Telephones and Cables Ltd.

Mr F. J. Rigg, F.C.A., the retiring President, has been nominated as regional vice-president, Western Europe.

GOLF

The annual golf competition of the Liverpool Society of Chartered Accountants was held recently at the Royal Liverpool Golf Club. The winner was Mr R. J. Hughes handicap (8) with 40 points. Other leading returns are as follows:

	Points
E. L. Ashton (10)	35
A. G. Lewis (18)	35
L. Goodwin (7)	33
E. S. Behn (8)	33
D. Stuttard (16)	33
G. R. Leece (9)	32
L. D. Hayward (10)	32
Articled Clerks	
R. J. Paskell (19)	37
V. Caldwell (4)	30

REVENUE PAPER
Trinity Sittings 1971

The following cases are down for hearing during the Trinity Sittings 1971:

HOUSE OF LORDS

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Lynall and another *v.* CIR
Greenberg *v.* CIR
Tunnicliffe *v.* CIR
Thomson *v.* Gurneville Securities Ltd

COURT OF APPEAL

General Reinsurance Co Ltd *v.* Tomlinson
Alherma Investments Ltd *v.* Tomlinson
Rose *v.* Humbles
Odeon Associated Theatres Ltd *v.* Jones
Aldersgate Textiles *v.* CIR
Restorick *v.* Baker
Owen *v.* Burden

HIGH COURT (Chancery Division)

Moore *v.* R. J. Mackenzie & Sons Ltd
CIR *v.* R. J. Mackenzie & Sons Ltd
Restorick *v.* Godber
Restorick *v.* J. H. Woodward (Contractors) Ltd
Restorick *v.* Parry
Restorick *v.* Godber, Parry and Parry
Malcolm-Brown and Horn (Trustees of Mollie Helme Settlement) *v.* Restorick
Ransom *v.* Higgs
Motley *v.* Pickersgill and Jenkins (Trustees of Higg's Settlement)
Kilmore (Aldridge) Ltd *v.* Dickinson
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Sinsbury *v.* O'Brien
Thompson *v.* Mohammed Salah
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CIR *v.* Babcock & Wilcox Ltd
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CIR *v.* Greaves
Warren *v.* Goddard
Soul Investments Ltd *v.* Rolfe
Soul Shops Ltd *v.* Rolfe
Ilonatuff Investments Ltd *v.* Rolfe
W. M. Robb Ltd *v.* Page
Nothman *v.* Cooper
Mills *v.* CIR

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